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bookkeeping handbook ***for low-income citizen groups***

prepared by the
national council of welfare

october 1973



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**national council
of welfare**



**conseil national
du bien-être social**

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FOR LOW-INCOME CITIZEN GROUPS

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National Council of Welfare

Brooke Claxton Building

BOOKKEEPING FOR LOW-INCOME CITIZEN GROUPS

Ottawa K1A 0K9

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FOREWORD

Since its inception in 1970 the National Council of Welfare has consistently urged governments to expand their provisions for support of self-help organizations formed by the poor. At the time we first issued this call such groups represented a very new phenomenon in Canada and support for them by governments was virtually non-existent.

We were pleased when the Welfare Grants program of the Department of National Health and Welfare and the Citizenship Branch programs of the Department of the Secretary of State made their first grants to such groups, and applauded the declaration in the communiqué of the Federal-Provincial Conference of Welfare Ministers in January 1971 that "Ministers expressed agreement in the support by governments of low-income groups to assist them to form effective organizations". We were further encouraged when the Opportunities for Youth and Local Initiatives programs broadened traditional government horizons in recognizing poor people's groups as appropriate sponsoring bodies for the projects they would fund.

Similar approaches have since come from a number of provinces, and these are likewise welcome. Regarding poor people's groups as being equally appropriate as traditional agencies for participation in such government programs of project support represents a highly commendable broadening in the perspective of governments in these past two years. But it has not been without its problems.

One is that the handling of substantial project funds and recording and reporting these in a fashion prescribed by the government program involves a degree of bookkeeping expertise which poor people's groups have often lacked. This problem has been compounded, in some instances, by the government programs being new ones, hurriedly launched, poorly staffed, and themselves unclear what they wanted in terms of records and financial reports. Particularly in the case of the Local Initiatives Program (LIP) there have been innumerable instances of projects being visited several times by different auditors, each with a different notion of what sort of bookkeeping system the project should maintain. Thus LIP auditors, who should have been a source of expert assistance to groups, instead sowed confusion and heightened uncertainty.

The National Council of Welfare recognizes that when large-scale programs such as LIP are launched on short notice and with no assurance that they will have more than a brief existence, much of this internal confusion is inevitable. But it is important that governments learn from such experiences; and among the lessons they should learn is the necessity for a greater sensitivity to needs at the project level.

We hope that governments will continue to develop and expand the range of programs providing for community-based projects initiated and administered by community groups, and that these programs will have an increased capacity for providing expert assistance to such groups. For the present, however, there are few expert resources available to low-income community groups to assist them in establishing systems of

financial records and accounts. It is this considerable vacuum that has led to this report.

It was initiated in response to the problems many poor people's groups indicated they were having in understanding and meeting the demands of government programs such as LIP. As our response to this problem evolved, however, it has not limited itself to this one situation. Rather we have sought to develop a handbook which would be of general assistance to organizations of low-income citizens in establishing bookkeeping systems that would serve their own internal needs as well as meeting the requirements of granting bodies.

In preparing this handbook the National Council of Welfare sought the advice of those who have had experience with the bookkeeping needs of groups and who have participated in developing systems to meet these needs. A committee was constituted, consisting of five people, each of whom was an active member of a poor people's group and had acted as bookkeeper for his or her group. These groups included welfare rights organizations, public housing tenants' associations, and city-wide and provincial umbrella organizations. Two of the five committee members were members of the National Council of Welfare, three were not. The Council staff which worked with the committee included an accountant.

No two of the groups from which the participants were drawn employed exactly the same system for keeping their books. None felt that they had evolved a perfect, problem-free format. But all had found ways of meeting the particular needs of their particular group. Collectively the committee sought to identify the common denominators of their various

systems in order to present a simple, straightforward approach that could satisfy the basic requirements of groups generally. This report is the result of that effort.

It is not intended as more than a guide. Some groups will have special needs which may not be covered by this report. Some groups will have already met their needs with quite different systems. This report is intended only as a resource to those who find it helpful as such.

The report is divided into two parts. The first is entitled Bookkeeping for the New Group. A basic bookkeeping system is presented, and the fundamental concepts and procedures are described. The second part of the report, Bookkeeping for the More Advanced Group, deals with some of the bookkeeping problems which a group may encounter as it expands its operation and comes to have larger amounts of money to deal with.

By way of example the report traces the history of a "typical" poor people's group through the several stages of its evolution and illustrates how a basic bookkeeping system can be expanded to meet the developing needs of the group.

BOOKKEEPING FOR THE NEW GROUP

WHY KEEP BOOKS?

Most organizations - even very small ones - cannot involve every member in every action or decision. Certain tasks, particularly more or less routine tasks, have to be delegated to smaller groups of members if they are to get done. This applies to almost any part of a group's activities: telephoning members about a meeting, writing stories for a newsletter, drafting reports and proposals for the whole group to consider. It especially applies to handling the day-to-day finances of a group. Bills have to be paid, small items have to be bought. Most groups realize that someone has to be responsible for seeing that these things get done, and that person is usually designated the treasurer.

When a group delegates authority to a treasurer, it will expect to receive reports on what the treasurer has done on behalf of the group. To prepare such reports the treasurer has to keep a record. A bookkeeping system is the treasurer's means of keeping this record of what he has done with the group's money.

The purpose of the bookkeeping system, then, is to keep track of the financial affairs of an organization: to know from where the group's money has come, to know for what it has been spent and when, to know how much is left and what items of value the group has, and to know what debts the group still has to pay.

This means that quite a bit of information has to be recorded, even for a small group with only a small

amount of money. As a group grows and gets more money, the volume of information also grows. And the problem of keeping track of all the financial affairs becomes more complicated, because most groups have to report not only to their own membership, but also to the organizations which have provided them with funds - often churches, community funds or governments.

The amount of information which has to be recorded, and the precision which is usually required, may make bookkeeping seem like a very difficult, confusing and time-consuming task. And it would be, if every group had to start from scratch and figure out a whole set of consistent rules on how to keep books.

Fortunately, this isn't necessary. A very complete set of standard rules for bookkeeping and accounting already exists. But since these rules are intended to cover a whole range of circumstances - everything from a small organization with little more than a chequing account to a large multi-national corporation - it is sometimes difficult to determine how they should be applied to a specific situation. Once the principles behind these rules are understood, however, their application can be relatively easy.

It is important to remember that the rules of standard bookkeeping do not require that every group use exactly the same bookkeeping system. The rules are very flexible and they can lead to many different types of systems. This report sets forth one such system. Many others are possible and as long as they obey the basic

rules they are every bit as "right" as the system set out in this report.

OPENING THE CHEQUING ACCOUNT

Most low-income citizen groups come into being with no money, no property, and really nothing of cash value. And for a long time the group may continue with little or nothing of cash value. Then one day the group gets a small amount of money: perhaps by charging dues to its members, or from some activity such as a bake sale, or from a small grant. Suddenly there is a need for some system to keep track of the money. What the group decides to do at this point may affect whether it will have a hard or an easy time managing its financial affairs for a long time to come.

The first thing a group should do when it receives some money is to open a chequing account. Even if there is only a small amount of money, a chequing account is important. A chequing account provides an accurate record of how much money has come in and how much money has been paid out. It allows the treasurer to make a fast and easy determination of when payments were made if a dispute should arise.

As soon as money is received by the organization it should be immediately deposited into the account. Again, the size of the deposit doesn't matter. Cheques or cash left around an office can be easily misplaced. People or organizations that give money to a group - especially a new

group - may question if the money is being properly used if they do not get back their cancelled cheque within a reasonable time after making the donation.

All the money which a group receives should go into the chequing account. There should never be an exception. Even if a group receives some cash and the money is needed to make an immediate purchase, the cash should be deposited into the account and then a cheque issued for the payment. Otherwise there is no adequate record of the money. Likewise, all payments should be by cheque (the exception of a petty cash system will be discussed later).

Banks usually offer their customers several kinds of accounts. The one which is the best for groups of all kinds is a Current Account (which is one type of chequing account). With such an account, the bank sends its customers a monthly statement showing all the transactions (deposits and cheques) on the account during the month and the bank further returns all of the cheques issued by the organization.

In order to open a current account, the group must first choose signing officers - the people who are going to be authorized to sign cheques for the organization. Most groups require that two members must sign all cheques; this gives some protection to the person signing that he won't be accused of using the money improperly and also protects the group against someone making off with their funds. It is usually a good idea to designate three persons as signing officers and then to require that all cheques must have the signatures of two of them. The reason for

this is that if only two people are given signing authority, and one happens to be unavailable to sign a cheque, no bill could be paid. Some groups require that one of the signers of all cheques must be the treasurer (since he is usually the one who is responsible for reporting all expenses); other groups find it easier to allow any two of the three signing officers to sign cheques. As a general rule it is probably best that the treasurer, whenever possible, be one of the signers on all cheques.

All chartered banks have the necessary forms to open current accounts for an organization. Banks have different forms for incorporated and unincorporated groups. A new poor people's group would almost certainly be unincorporated and the appropriate forms should be obtained (they are the same forms which are used for lodges and churches). The group will have to complete the form and also a card with sample signatures of each of the signing officers (this card is kept on file at the bank and used to verify if a cheque is valid). The group should be certain to keep an extra copy of the completed form in its own files. If there are any questions about what information to put in any blank, or who should sign where, ask the bank manager.

As soon as the forms have been completed and returned, the bank can immediately open an account for the group. The person who returns the forms to the bank should be sure to ask for, and to carefully record, the account number. The bank will provide the group with a book of deposit slips and temporary blank cheques. The name of the group and the account number should be written on every cheque and deposit slip. Within a few weeks the bank will

supply personalized cheques which have the name of the group and the account number printed on them. As soon as these arrive the unused temporary cheques should be ripped up and thrown away.

An Example: The Citywide Action Group

The Citywide Action Group is an imaginary group of low-income citizens living in Centretown, Manitoba, who organized in January 1972 around the issues of poor housing and lack of recreational facilities. There were only ten members in the beginning and for the first two months the group operated with no money at all. It quickly became clear to the members that they needed some money to buy paper for notices, stamps, etc., so a few members volunteered to form a funding committee and speak to the ministers of the city's churches. One of these, the First Church of Centretown, agreed to make a \$200 grant to the organization. On March 15, 1972, the president received a cheque from the church for \$200 made payable to the Citywide Action Group.

The day after the cheque was received (March 16) the group called a meeting and decided they would use the Centretown National Bank as the organization's bank. Ms. Anne Jones, the group's treasurer, was authorized to go to the bank and get the necessary forms. The group further decided that the signing officers would be Ms. Jones, Ms. Pat Smith (the president), and Mr. Ken Douglas (the secretary), and that any two of these could sign cheques. All of these decisions were recorded in the minutes of the meeting.

That afternoon Ms. Jones went to the bank and got the forms. They were completed and signed by the group's officers:

(FIGURE 1)

Form 107D
Signing Authority, Lodges,
Societies, Churches, etc.

To The Centretown National Bank

FIFTH AND PRINCE Branch

You are hereby advised that the following resolution was passed at a meeting of the
CITYWIDE ACTION GROUP (Full name of Organization), duly called
and held on the SIXTEENTH day of MARCH, 1972.

ON MOTION IT WAS RESOLVED THAT the PRESIDENT
(Show titles, not names)

† and the TREASURER
† or SECRETARY OR ANY TWO OF THEM

† If words not applicable delete

is/are authorized for and in the name of the aforesaid organization to transact generally with the said Bank any business relating to banking including the execution and delivery of any and all agreements, documents and instruments required by the Bank; and without limiting the generality of the foregoing to do the following:

1. To carry on account with The Centretown National Bank,
2. To draw, accept, sign and make all or any bills of exchange, cheques and orders for the payment of money, and
3. To pay and receive all moneys and give acquittances for the same, and
4. To rent safety deposit boxes and have access thereto and to surrender the same, and
5. To execute a Night Depository Agreement with the Bank.

And that any of the foregoing officers is authorized

- (a) To endorse for deposit or collection, all or any bills of exchange, promissory notes, cheques or orders for the payment of money, and
- (b) To receive pass books and vouchers and give receipts for the same and to confirm balances.

This resolution shall continue in force until notice in writing of its revocation has been given to you.

CERTIFIED a true copy.

DATED the SEVENTEENTH day of MARCH, 1972

Ken Douglas Secretary
Anne Jones (SEAL)

* (If the Secretary alone is authorized to sign, this form must be signed by another officer as well as the Secretary).

Names of the officers, and their respective titles:

PATRICIA SMITH PRESIDENT

KEN DOUGLAS Secretary
ANNE JONES Treasurer

(Rev. 5-63)

NAME OF CORPORATION OR FIRM OR INDIVIDUAL IN FULL CITYWIDE ACTION GROUP		ACCOUNT NO 233-789-857
CHEQUES TO BE SIGNED BY: PRESIDENT AND TREASURER OR SECRETARY OR ANY TWO OF THEM		
POSITION AND OR NAME	SPECIMEN SIGNATURE	
PRESIDENT	<i>Patricia Smith</i>	
SECRETARY	<i>Ken Douglas</i>	
TREASURER	<i>Anne Jones</i>	
MARCH 17 1972	The Centretown National Bank	

Upon returning the forms to the bank on March 17, Ms. Jones was told that the group's account number would be 233-789-857. She was given a deposit book and a book of blank cheques and immediately deposited the \$200 cheque from the church. The deposit slip is shown:

NAME OF ACCOUNT CITYWIDE ACTION GROUP																																																													
DATE MARCH 17, 1972																																																													
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FIRST CHURCH OF CENTRETOWN	200.00																																																												
CHARGE X DEPOSIT																																																													
TOTAL CHEQUES & CURRENCY	\$ 200.00																																																												
ADD/Deduct U.S. PREM/DISC																																																													
NET DEPOSIT	\$ 200.00																																																												
PLEASE ENTER ON REVERSE																																																													

(FIGURE 2)

(100 (1-72) CURRENT ACCOUNT DEPOSIT	
THE CENTRETOWN NATIONAL BANK	
TELLERS	ENTER TOTAL FROM REVERSE \$ 200.00
STAMP	CITYWIDE ACTION GROUP (NAME OF ACCOUNT) 233789857 (ACCOUNT NUMBER)

It should be noted that deposit slips from other banks may look quite different from this one. Whatever kind of slip your bank may use, the important thing is that all of the necessary information is entered completely and accurately.

THE CHEQUE BOOK

The left part of each page of the cheque book is the stub which remains in the book after the cheque has been removed. It is very important to fill out the stub completely when a cheque is written. The following information should be written on the stub: the cheque number, the date of issue, to whom the cheque was issued, the amount of the cheque, and a brief description of the purpose of the payment.

In order to know the amount of money remaining in the bank the treasurer should keep a running balance on the stub. When the account is opened, the first deposit should be recorded in the first stub in the book. After that, the amount of every cheque should be written on the appropriate stub and subtracted from the previous balance; likewise all deposits should be entered and added.

When a cheque is written it should be filled out completely before it is signed. This means that the cheque number must be shown; the date must be shown; the name of the payee (the person or company receiving the cheque) must be entered in full; the amount of the cheque

must be entered both in figures and in written form and the two must agree. Only when all this information has been put on the cheque should the signing officers sign. It is a bad policy to have one of the signing officers sign a quantity of blank cheques; this destroys the whole purpose of having more than one signature on a cheque.

The bill or voucher for which payment is being made should be shown to the signing officers when they sign a cheque so they'll know what they're paying for. After the cheque is signed, the treasurer should record the cheque number on the bill that's been paid.

Coming back to the Citywide Action Group, the treasurer asked the group how the money should be spent. She was authorized to buy a used typewriter, some paper and envelopes, some pens, and some other expendable items for the office.

She bought a \$35 used typewriter from Centretown Equipment Ltd. and bought all of the office supplies for \$11.56 from Ace Office Supplies. Both payments were made by cheque (no. 1 and 2 respectively). The two cheques and stubs looked like:

(FIGURE 3)

No. <u>1</u> <u>MARCH 21, 1972</u> <small>Date</small>		No. <u>1</u>																					
PAY <u>CENTRETOWN EQUIPMENT</u> <u>FOR A USED TYPEWRITER</u>		THE CENTRETOWN NATIONAL BANK Fifth Street at Prince Centretown, Manitoba																					
		CURRENT ACCOUNT																					
<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 20%;">Bal Fwd</td> <td style="width: 80%;">NIL</td> </tr> <tr> <td>DEPOSITS</td> <td></td> </tr> <tr> <td>TOTAL</td> <td>200.00</td> </tr> <tr> <td>Amount of This Cheque</td> <td>35.00</td> </tr> <tr> <td>BALANCE</td> <td>165.00</td> </tr> </table>		Bal Fwd	NIL	DEPOSITS		TOTAL	200.00	Amount of This Cheque	35.00	BALANCE	165.00	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td colspan="2" style="text-align: right;">MARCH 21 19 72</td> </tr> <tr> <td style="width: 60%;">PAY TO THE ORDER OF <u>CENTRETOWN EQUIPMENT LTD.</u></td> <td style="width: 40%;">\$ <u>35.00</u></td> </tr> <tr> <td colspan="2" style="text-align: center;"> <u>THIRTY - FIVE</u> *x/100 DOLLARS </td> </tr> <tr> <td colspan="2" style="text-align: right;"> <u>Ken Douglas Anne Jones</u> <small>CITYWIDE ACTION GROUP</small> </td> </tr> <tr> <td colspan="2" style="text-align: right;">Account No. <u>233-789-857</u></td> </tr> </table>		MARCH 21 19 72		PAY TO THE ORDER OF <u>CENTRETOWN EQUIPMENT LTD.</u>	\$ <u>35.00</u>	<u>THIRTY - FIVE</u> *x/100 DOLLARS		<u>Ken Douglas Anne Jones</u> <small>CITYWIDE ACTION GROUP</small>		Account No. <u>233-789-857</u>	
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No. <u>2</u> <u>MARCH 23, 1972</u> <small>Date</small>		No. <u>2</u>																					
PAY <u>ACE OFFICE SUPPLIES</u> <u>FOR PAPERS, ENVELOPES,</u> <u>PENS, ETC.</u>		THE CENTRETOWN NATIONAL BANK Fifth Street at Prince Centretown, Manitoba																					
		CURRENT ACCOUNT																					
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Sometimes the treasurer may prepare a cheque which is never issued or which is returned without being cashed by the payee. This might be because of a misspelling, the insertion of a wrong amount, or a later decision not to make the payment. Whether this happens before or after the cheque is signed, the cheque should never be thrown away. The treasurer should write "VOID" across the cheque and on the cheque stub, and tear off the signature part of the cheque. The voided cheque should then be stapled onto its stub.

STARTING THE JOURNALS

As soon as the chequing account is opened, a group's treasurer should immediately begin a set of books to record every financial transaction made for the group. These books consist of reporting sheets which are called "journals".

Every time the group receives money (makes a deposit in its current account) or makes a payment (issues a cheque), the transaction should be recorded in the journals. The best rule is to enter the transaction into the journals immediately after it is done. The less that is left to memory, the better. It is very easy to forget the details of some small donation or expense; and at the end of the month when the treasurer tries to balance the books he can have a very hard time if something hasn't been recorded.

One of the easiest bookkeeping systems involves the use of three different journals. These are:

- (1) The Receipts Journal in which all of the income of the organization is recorded.
- (2) The Cheque Disbursements Journal in which all of the payments (the technical term is "disbursements") made by cheque are recorded.
- (3) The Petty Cash Journal in which payments made by cash are recorded.

The treasurer should take two journal sheets and title one "Receipts Journal" and the other "Cheque Disbursements Journal". Immediately under the title he should put the month and the year. At the start of every month he should prepare separate new journal pages for that month.

The first column on each page ("a" in Figure 4) is used to record the date when the transaction was made. The next column (usually the widest one, "b" above) is used for the name of the person from whom money was received or to whom money was paid (sometimes this column will be headed by the word "Particulars" but we will simply use "Name"). In the Cheque Disbursements Journal the next column ("c") will be used to record cheque numbers; in the Receipts Journal it is left blank. The next column ("d") should be headed by the word "Bank".

The other columns ("e") are used to record receipts and payments according to where they came from or for what they were spent. Stated in this generality it may sound confusing, so it may be easier to examine the Receipts and the Disbursements Journals separately.

As we have stated, the Receipts Journal records all of the income of the group. In the "Name" column we record the exact name of the person or organization from which the money came. But that doesn't tell us what kind of income it was (why the income was received): it could be a grant, or it could be dues, or it could be proceeds from a bake sale, or several other things. These other columns record this information. They should each be headed by one or two words describing the kind of income

(for example, grants, dues, bake sale). The headings are up to the treasurer and will vary from group to group, depending on what kinds of income each group has. Once the headings can be clearly understood, there are no "required" terms.

There is no need to anticipate ahead of time all of the possible types of income that a group might have. If the group only has one or two kinds, that is all it should list. The blank columns can always be used in the future as the need arises.

Once the Journal is set up, making entries is easy. The date should be the date on which the money was deposited into the bank. The name is the exact name of the person or organization that gave the money. Since the money is being deposited into the bank, the total amount put into the bank should be entered into the "Bank" column. Finally, so that the records will show the nature of this income, the total amount should be entered under the column which identifies the appropriate type of receipt. All entries in the journals should be made in ink.

Going back to the example of the Citywide Action Group, as soon as the treasurer made the first deposit in the current account (see Figure 2 on page 8), she immediately opened up the Receipts Journal. The group had only one kind of income, a grant, so that was the only kind that was listed. The Receipts Journal looked like:

(FIGURE 5)

CITYWIDE ACTION GROUP RECEIPTS JOURNAL MARCH 1972										
PHOTOGRAINED IN PERMANENT INK										
SR-872 COLUMN	DATE	NAME	BANK		GRANTS					
1	1972 MAR 17	FIRST CHURCH OF CENTRETOWN	20000		20000					1
2										2
3										3
4										4
5										5
6										6
7										7
8										8
9										9
10										10
11										11

The Cheque Disbursements Journal is organized along much the same line. Each of the columns is used to record a different category of expense (for example, office supplies and expenses; babysitting; meals and transportation). The headings will depend on the needs of the group. It's a good idea to put together similar expenses into one category (for example, paper, pens, tape, and erasers can be lumped together into "Office Supplies and Expenses"). A new group with only a small amount of money will probably have very few kinds of expenses.

Entries are similar to the ones in the Receipts Journal. The date is the date on the cheque; the name is that of the person or company to which the cheque is made. Since the cheque is being written against the group's bank

account, the total amount of the cheque should be entered into the "Bank" column. Finally, the amount should be entered under the appropriate category of expense column. All of the information which is needed to make the journal entry can be obtained from the cheque stubs.

When the treasurer of the Citywide Action Group went to enter the first two cheques (see Figure 3 on page 11) into the Cheque Disbursements Journal, she saw there were two categories of expenses: one was equipment (the typewriter) and the other office supplies and expenses (the paper, envelopes, pens, etc.). So she made only two headings in her Disbursements Journal and recorded the payments as follows:

(FIGURE 6)

[illegible]

At the end of every month each of the columns in the Receipts Journal and the Cheque Disbursements Journal should be totalled by the treasurer. The totals should be recorded right on the journal pages with a double-line underneath them. New journal pages should then be prepared for the next month.

The March totals for the Citywide Action Group have already been entered in Figure 6. The totals of all of the expense columns, added together, should always equal the total in the "Bank" column.

Even the most careful treasurer will occasionally make a mistake in a journal entry. It is perfectly acceptable to make corrections in the journal as long as they are done neatly. The usual method is to put a single line through the incorrect information (or in the case of numbers, to put a small diagonal slash through each figure) and then to enter the correct information directly above the mistake.

If a cheque has been voided (see previous discussion on page 11), the cheque should still be recorded in the Disbursements Journal (so that the numerical sequence of cheques in the journal is preserved). The treasurer should write in the date and number of the cheque and then put the word "void" into the "Name" column. Naturally if the amount of the cheque had already been entered it should be stroked out.

Finally, a word should be said about the words "debit" and "credit". These are very common terms in

bookkeeping and in most bookkeeping systems they appear everywhere, particularly in the journals. Basically, debit is used to mean left and credit means right (like port and starboard on a ship). In writing this report, however, we have tried to set up a system that avoids using the words debit and credit entirely. Explaining a bookkeeping system in terms of debits and credits can frequently become confusing and, since a perfectly good system can be set up that doesn't use these words, we think the best thing to do is to avoid them.

BANK RECONCILIATION

At the end of each month the bank sends a statement along with all of the cheques which have been paid against the account. This is an important document. It will usually arrive during the first two weeks of the new month; if it doesn't come, the bank should be called. (It should be noted that some banks will only mail this statement if instructed to do so; otherwise they will hold it until it is picked up. The treasurer can decide which is most convenient for him).

Figure 7 shows the bank statement received by the Citywide Action Group for the month of March:

the column marked "Credits", shows that a deposit of \$200 was made on March 17, and the resulting balance in the account was \$200. Then there is an item for March 23 in the "Debits" column indicating that the bank paid a cheque on the account for \$35.00, reducing the balance to \$165.00. Finally on March 25 the bank paid another cheque for \$11.56 reducing the balance to \$153.44.

In the bank statement, the "Debits" column is always used to record cheques and the "Credits" column is always used to record deposits.

When the statement is received, the treasurer should do the following:

- 1) Verify that the entries on the debit side of the statement correspond to the amounts on the cheques which are enclosed with the statement. If there is a mistake, the bank should be called.
- 2) See whether all of the cheques which have been issued by the organization have been paid. This is done by comparing the cheques returned with the statement and the items recorded in the Cheque Disbursements Journal. Each item in agreement is ticked off in the bank statement and in the Disbursements Journal. It is not at all unusual that some cheques written during the month will not have been cashed and cleared by the bank by the end of the month; these are referred to as outstanding cheques and they will be discussed later.
- 3) Make sure that all of the deposits have been recorded

in the bank statement. This is done by going to the Receipts Journal and again ticking off items in agreement in each. Sometimes a deposit made on the last day of the month will not be recorded. If any other deposit is not shown, call the bank.

When these have all been done and the treasurer is satisfied that the bank statement is in agreement with his records, he is ready to prepare his own statement so he can record the fact that there is agreement. This statement is called a Bank Reconciliation Statement and this whole process of showing agreement is referred to as reconciling the bank.

The Bank Reconciliation Statement should be prepared on the same journal page where the cheque disbursements for the month are recorded. If there is no room on that page, it can be prepared on a separate journal sheet which should be put directly behind the month's journal page in the Cheque Disbursements Journal.

The Bank Reconciliation Statement should take the following standard form:

- First, the balance at the start of the month.
- Then, the addition of the total deposits for the month (which can be taken directly from the total of the "Bank" column of the month's Receipts Journal).
- Finally, the subtraction of the total disbursements for the month (taken from the total of the "Bank" column of the Cheque Disbursements Journal).

This final amount is the balance at the end of the month; in preparing the next month's statement it will be the opening balance. If this amount agrees with the closing balance on the bank statement, the work is done. (Later in the report we'll discuss the further step in more complicated situations where they won't agree.)

The Bank Reconciliation Statement for the Citywide Action Group for March 1972 is as follows:

(FIGURE 8)

CITYWIDE ACTION GROUP							
CHEQUE DISBURSEMENTS JOURNAL							
MARCH 1972							
THOGRAPHED IN PERMANENT INK							
SYEARING IC SR-872 B COLUMN	DATE	NAME	ENTRY #	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	
1	MAR 21	CENTRETOWN EQUIPMENT	1	3500	3500		1
2	MAR 23	ACE OFFICE SUPPLIES	2	1156		1156	2
3							3
4				<u>4656</u>	<u>3500</u>	<u>1156</u>	4
5							5
6							6
7							7
8							8
9							9
10							10
11							11
12							12
13							13
14							14
15							15
16							16
17							17
18							18
19							19
20							20
21							21
22							22
23							23
24							24
25							25
26							26
27							27
28							28
29							29
30							30

BANK RECONCILIATION STATEMENT			
MARCH 31, 1972			
11			
12			
13			
14			
15			
16			
17			
18			
19			
20			
21			
22			
23			
24			
25			
26			
27			
28			
29			
30			

OPENING BALANCE NIL

ADD: RECEIPTS FROM \$ 20000
RECEIPTS JOURNAL

LESS: DISBURSEMENTS FROM
CHEQUE DISBURSEMENTS JOURNAL 4656

CLOSING BALANCE AS PER
BANK STATEMENT AND
OUR RECORDS. \$ 15344

After preparing the Bank Reconciliation Statement, the treasurer should paper clip the cancelled cheques to the bank statement and place them in his files. Cancelled cheques and bank statements should always be kept on file because they may be needed later to verify payments.

PETTY CASH

As we stated earlier, it is generally a good rule for a group to make all of its payments by cheque. There are times, however, when making payments by cheque is impractical. Some member may have to be reimbursed for a small purchase, or may have to make purchases for which payment by cheque would be difficult (like bus tickets or a lunch). The easiest way to handle these kinds of expenses is by establishing a petty cash fund.

The petty cash fund should be used only for the payment of small expenses. Many groups find it useful to set a limit on the amount of any one payment from the fund - a limit of \$5, for example. Any expense over the limit must be paid by a cheque; anything under the limit can come from the fund. Other groups specify the kinds of things that can be paid from the fund (say, office supplies and bus tickets only) as well as a limit.

One member of the group should be appointed the custodian in charge of the petty cash fund. He should be the only one who is authorized to make payments from the

fund. The custodian of the fund has to assume responsibility for the money and if there are several people who make payments it becomes almost unreasonable for him to be held accountable.

All that is needed to start the fund is the issuance of a cheque to the custodian. As in all cases, the cheque is entered into the Cheque Disbursements Journal; the treasurer should head one of the blank columns in the journal "Petty Cash" (or he could use the "Sundry" column which we will discuss later). The cheque stub should record the purpose of the payment as "To open petty cash fund". The custodian then goes to the bank, cashes the cheque, and places the money into a cash box which should be bought by the organization. (It should be noted that the cheque opening the fund may be made out to "cash". However, it is a bad policy to issue any cheque out to cash, because if it should ever be misplaced or lost it could be cashed by anyone who finds it.)

The amount which is put into the petty cash fund is up to the group. It should never be very much money; most groups find that \$25.00 is a good figure.

Sometimes there is confusion as to what a petty cash fund is. Petty cash is a way of making payments, in the same way that a chequing account is a way of making payments. It is not an item of expense.

When any member of the group wants to claim money from the petty cash fund he must first submit a petty cash voucher. Packs of vouchers can be bought from a stationery store or the group can make up its own. The

voucher should record the date of payment, the name of the person requesting payment, the amount, a description of the expense, and the signatures of the payee and of the petty cash custodian. The vouchers should also be consecutively numbered. If possible, a store receipt substantiating the payment should also be submitted and should be stapled onto the voucher. A voucher should always be completed for every petty cash payment; a receipt by itself is insufficient because it rarely gives all of the details which the treasurer will later need.

When the custodian is satisfied that the expense is a proper one, he should sign the voucher and make the payment from the petty cash fund. The payment should be for the exact amount claimed (so it is a good idea to keep some change in the petty cash box). The person receiving the money should also sign the voucher (acknowledging that he has received payment).

After the payment is made, the voucher should be put into the petty cash box. Since the payment was for the exact amount on the voucher, the sum of the cash left in the box and the amount of the voucher will be the same amount as when the petty cash fund was begun. This should always be the case: The amount of cash in the box plus the amounts of all the vouchers in the box must always add up to the total of the petty cash fund (the amount of money which was originally put into the fund).

An example may clarify any questions. In early April 1972 the Citywide Action Group decided that it needed a petty cash fund. It was decided that \$25.00 was a good amount and John Arnold was asked to be the custodian. Mr.

Arnold was given a cheque for \$25.00 and he immediately cashed it. The entry in the Cheque Disbursements Journal looked like:

(FIGURE 9)

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL APRIL 1972											
LITHOGRAPHED IN PERMANENT INK											
SPREADING NO. 5R-872 8 COLUMN	DATE	NAME	#	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	PETTY CASH				
1	APR 5	JOHN ARNOLD	3	2500			2500				1
2											2
3											3

Mr. Arnold decided to design his own petty cash vouchers which he had mimeographed at a local church:

(FIGURE 10)

CITYWIDE ACTION GROUP Petty Cash Voucher	
Voucher No. _____	Amount \$ _____
Date _____	
Name of Claimant _____	
Description of Payment _____	

Signature of Custodian _____	
Signature of Claimant _____	

On April 10, Ms. Jones asked to be reimbursed \$3.00 to cover the costs of meals and transportation. She completed a voucher and was given the money. The petty cash box now had \$22.00 in cash and a voucher for \$3.00 - which totalled \$25.00. Then Mr. Douglas asked to be reimbursed \$4.40 for the purchase of stamps for the group. He also completed a voucher, attached the receipt he had obtained from the post office, and was paid. Now the box had \$17.60 in cash and vouchers totalling \$7.40 - which again add up to \$25.00. And so on.

When the petty cash fund has expended most of its money, it becomes necessary to reimburse the fund. How much is to be reimbursed?

When a group sets up a petty cash fund it must decide how much money it wants in the fund (in the example this was \$25.00). The purpose of reimbursing the fund is to bring it back to this original level. Thus, the amount of the reimbursement must be the same as the amount which has been paid out of the fund. The custodian of the fund should total up all of the vouchers in the cash box and present these to the treasurer who will issue a cheque in the exact amount of the total. This will restore the fund to its original level. It is important that once the fund has been reimbursed, the treasurer should put all of the vouchers into an envelope marked with the date and number of the reimbursement cheque, and the envelope should be filed away. Vouchers for which the fund has been reimbursed should never be put back into the petty cash box.

Most groups do not have to reimburse their petty cash fund very frequently. It is usually a good idea

if the fund is always reimbursed on the last day of every month (so the treasurer can prepare a complete statement of expenses for the month).

When the petty cash reimbursement cheque is issued, it will naturally be entered into the Cheque Disbursements Journal (with the amount written under the "Bank" and "Petty Cash" columns).

But another step is needed, because, as we noted before, petty cash is only a means of making payments and not an expense in itself. It is therefore still necessary to record to whom payments were made and what they were for (office supplies, meals and transportation, etc.). This is done through the third of our journals, the Petty Cash Journal.

The Petty Cash Journal is set up just like the other two, except that the first of the money columns is headed "Petty Cash Paid", and the small column ("c" in Figure 4, page 13) is headed "Voucher No".

At the end of April Mr. Arnold, the petty cash custodian for the Citywide Action Group, had the following vouchers in his box:

- Voucher No. 1 from Ms. Jones for \$3.00
for meals and transportation (April 10)
- Voucher No. 2 from Mr. Douglas for \$4.40
for stamps (April 14)
- Voucher No. 3 from Ms. James for \$2.50

At the end of every month a Petty Cash Reconciliation Statement should be prepared and entered into the Petty Cash Journal. It is very similar to the Bank Reconciliation Statement that has already been described:

First, the opening cash on hand at the start of the month.

Then, the addition of the total payments made to the petty cash fund (which is taken from the total of the "Petty Cash" column in the Cheque Disbursements Journal).

Finally, the subtraction of the amount of all the vouchers paid (which is the total of the "Petty Cash Paid" column of the Petty Cash Journal).

The final amount should be the same as the amount of cash in the cash box; this is also the amount which will be used in preparing the next month's reconciliation as "opening cash on hand".

The Petty Cash Reconciliation statement for the Citywide Action Group was as follows:

(FIGURE 12)

CITYWIDE ACTION GROUP PETTY CASH JOURNAL APRIL 1972									
DATE	NAME	VOUCHER #	PETTY CASH PAID	MEALS AND TRANSPORTATION	OFFICE SUPPLIES AND EXPENSES				
1972 1 APR 10	ANNE JONES	1	3.00	3.00					1
2 APR 14	KEN DOUGLAS	2	4.40		4.40				2
3 APR 19	ALICE JAMES	3	2.50	2.50					3
4 APR 27	GEORGE ALIO	4	4.58		4.58				4
5 APR 27	HELENE LEFEBVRE	5	3.00	3.00					5
6									6
7			17.48	8.50	8.98				7
8									8
9									9
10	RECONCILIATION OF PETTY CASH ON HAND								10
11	APRIL 30, 1972								11
12									12
13	OPENING CASH ON HAND								13
14	AT START OF MONTH					NIL	(FUND STARTED IN APRIL)		
15									15
16	ADD: CASH REIMBURSEMENTS FROM								16
17	CHEQUE DISBURSEMENTS JOURNAL					\$ 42.48			17
18									18
19	LESS: VOUCHERS (AS ABOVE)					17.48			19
20									20
21	CASH ON HAND AT END OF MONTH					\$ 25.00	(AGREES WITH THE		
22							AMOUNT OF CASH		
23							IN THE CASH BOX)		
24									24
25									25
26									26
27									27
28									28
29									29
30									30

One final word on petty cash is in order. The petty cash fund should never be used to make personal loans. If the petty cash custodian is asked to make such a loan, he should always refuse and the group should back him in this refusal. Likewise the petty cash fund should not be used to cash members' cheques.

MORE ON THE JOURNALS

As we have already said, each entry in the journals has two parts: First the amount has to be put into the "Bank" column (for the Receipts and Disbursements Journals) or the "Petty Cash Paid" column (for the Petty Cash Journal). Then the amount must be entered again under the column which describes the type of receipt or payment.

This is because every transaction has two sides. In the case of a receipt, the money has to go into someplace (the bank) and it has to come from someplace (grants, dues, a bake sale or whatever). In the case of a disbursement, the money has to come from someplace (the bank, in the form of a cheque, or from the petty cash fund) and it has to go towards the payment of something (office supplies, meals and transportation, etc.) Every standard bookkeeping system is built around this idea that a transaction has to have two sides (that is why it is called double-entry bookkeeping).

In all the examples we have used so far we have always had the exact same figure entered twice on every line. This is because each example has involved a payment (or a receipt) for items which have fit exactly into one of our categories of expenses.

It may happen, however, that a payment is made which includes items that fit into several different categories. How should the treasurer record this in the journal?

First, of course, the total payment should be

entered into the "Bank" column. Then, the amounts corresponding to each category of expense should be entered in each of the appropriate columns. There is only one basic rule: For each entry, the amount which is entered into the "Bank" column (Receipts and Disbursements Journal) must equal the sum of the amounts entered into all of the other columns. In the Petty Cash Journal the same applies for the "Petty Cash Paid" column. If you consider the two sides of each transaction, this is an obvious rule.

For an example of this kind of split entry, consider a payment of \$24.68 made by the Citywide Action Group on April 7 to the Ace Office Supplies Company. The items purchased were:

Paper	\$ 4.67
Index Cards	3.89
Typing Stand	15.25
Pencils	.87
	<hr/>
	\$24.68
	<hr/>

The treasurer decided that the paper, index cards and pencils were all office supplies. The typing stand, however, was equipment. She therefore had to enter \$15.25 under the "Equipment" column and \$9.43 under "Office Supplies and Expenses". The entry can be seen on line 2 of Figure 14 (page 37).

As we stated earlier, the designation of the columns in each of the Journals is up to the group and will depend on the kind of expenses (and income) the group has. It may happen, however, that there will be more categories

of expenses than there are columns on the page.

One solution is to get pages with more columns (sheets with up to 24 columns or more can be bought at most stationery stores). These large sheets can be very cumbersome to work with, and they can also get to be expensive. And it frequently happens that some of the kinds of expenses are encountered only occasionally.

An easier solution is to designate the two right-most columns on the page as "Sundry". At the head of the first of these columns should be written the word "Description" and at the head of the second "Amount". Then whenever a category of expense is encountered which does not have a column of its own, the heading for that category should be entered into the "Description" column and the amount into the "Amount" column. Only those categories of expense that are used frequently should be given a column of their own; all the rest can be listed under the "Sundry" column.

It is worth repeating that as a general rule the number of categories should be kept to a workable minimum. As a group develops and operates for a while, the treasurer will get a better idea of what categories are really necessary and which can be combined with others. For example, should there be a separate category to record telephone expenses or can this be grouped into a general "Rent, Utilities and Services" category? A group that has to make frequent long-distance calls and that is on a limited budget may need a separate "Telephone" category so it can control expenditures and easily make comparisons from one month to the next. A group that has only the basic monthly service charge with the

rare long-distance call might want to lump telephone expenses into the broader category. Everything depends on the needs of the group and these can only be learned from experience.

Going to our example again, the Citywide Action Group had a phone installed in early April in a small office donated by a church. The treasurer paid a bill for installation and service charges on April 25 for \$25.89. She decided that she would create a general category of "Rent, Utilities and Services". Since this was the only item she thought would fit into this category during the month, she entered it in the "Sundry" columns. The entry can be seen on line 4 of Figure 14 on page 37.

To complete the example of the April transactions of the Citywide Action Group, consider the rest of the group's receipts and disbursements:

Receipts: - April 8, \$25.80 from a bake sale;
- April 25, \$35.00 grant from the United Workers Union

Disbursements: (in addition to the ones already discussed on pages 27, 30, 34 and 36)
- April 15, \$7.00 to Ms. Jones to reimburse her for the cost of a babysitter while she was doing volunteer work for the group;
- April 25, \$9.00 to Mr. Alio, also for babysitting costs.

The April Receipts and Disbursements Journals looked like:

(FIGURE 13)

[illegible]

(FIGURE 14)

[illegible]

Naturally a running balance was kept on the cheque stubs. At the start of the month, it will be remembered, the balance was \$153.44. At the end of the month, after all the transactions described above, it was \$105.19.

AND MORE ON BANK RECONCILIATION

Banks charge their customers for providing them with Current Accounts. These costs are called service charges and are computed on the basis of the number of transactions during the month and on the minimum balance during the month. (Since banks have different procedures for computing these service charges, a group interested in knowing how their charges are arrived at should ask their own bank). Banks automatically deduct service charges from accounts, generally on the last business day of the month. The month's service charge is always shown on the bank statement with the letter "S" next to the amount.

Since the service charge is a disbursement (even though not one made by cheque) and affects the bank balance, it must be entered into the Cheque Disbursements Journal just as if it were a normal payment. The service charge for each month should be entered into that month's page in the Disbursements Journal. That means that the columns of the Cheque Disbursements Journal should not be totalled until the Bank Statement for the month has been received.

Also, the service charge must be deducted from the running balance on the cheque stubs. It is particularly easy to forget to do this so special care should be taken.

Once the service charge is entered into the Disbursements Journal and the cheque stubs, the columns of the Journal can be totalled and the Bank Reconciliation Statement prepared.

As we mentioned before, it is very possible that there will be some outstanding cheques - that is, cheques which have not been cashed and cleared by the bank during the month. Using the method described on page 21 the treasurer will be able to identify easily which cheques are outstanding. He should make a list of the cheque number, name of payee, and amount of each item in the Journal which is not ticked.

If there are outstanding cheques, the closing balance on the bank statement will naturally be larger than that shown on the cheque stubs, so an extra step will be needed in preparing the Bank Reconciliation Statement.

The first part of the Bank Reconciliation Statement will be exactly as described before:

First, the balance at the start of the month.
(same as the closing balance of the previous month).

Then, the addition of the total deposits for

the month (from the Receipts Journal).

Then, the subtraction of the total disbursements (from the Disbursements Journal - which will now be the sum of all the cheques plus the service charge).

This will give what is called the true bank balance (that is, what the bank statement would show if all of the cheques issued during the month had been cashed and cleared during the month). The true bank balance will be used as the opening bank balance in the next month's Bank Reconciliation Statement.

The extra step in reconciling the bank is to subtract from the closing balance on the bank statement the amounts of the outstanding cheques. The reason for subtracting these amounts is that when they do get cashed and cleared they will reduce the balance in the account as shown in the bank's records. It should be noted that if there is an outstanding deposit (one that hasn't been recorded on the bank statement) it should be added to the closing balance on the bank statement and then the total of the outstanding cheques subtracted.

This additional step should give the true bank balance again. If it doesn't, everything should be rechecked. Perhaps there is simply an arithmetical error, or, more serious, some receipt or disbursement may not have been properly recorded.

Going back again to the Citywide Action Group,

the April bank statement arrived in early May.

(FIGURE 15)

THE CENTRETOWN NATIONAL BANK

Citywide Action Group
c/o Ms. Anne Jones
2873 Woodly Avenue
Centretown, Manitoba

STATEMENT OF ACCOUNT
RELEVÉ DE COMPTE

ACCOUNT NO.
233-789-857

APR 30, 1972

PERIOD ENDED
PERIODE FINISSANT LE

CURRENT ACCOUNT
COMPTE COURANT

BALANCE FORWARD
SOLDE REPORTÉ

BALANCE
SOLDE

DEBITS		CREDITS		DATE	
				M	D
25.00			4 5		128.44
		25.80	4 8		154.24
24.68			4 10		129.56
7.00		35.00	4 25		157.56
17.48			4 30		140.08
.80S			4 30		139.28
					153.44

NO ENCLOSURES
4

NBRE EFFETS

FULL PAGE
FEUILLE PLEINE

TOTAL AMOUNT - DEBIT
74.96

MONTANT TOTAL - DÉBIT

NO DEBITS
5

NBRE DÉBITS

TOTAL AMOUNT - CREDIT
60.80

MONTANT TOTAL - CRÉDIT

NO CREDITS
2

NBRE CRÉDITS

PLEASE EXAMINE PROMPTLY AND REPORT ANY DIFFERENCE
IN THIS STATEMENT DIRECT TO THE ACCOUNTANT

S.V.P. VÉRIFIER SANS DÉLAI ET EN CAS D'ERREUR
AVISER LE COMPTABLE IMMÉDIATEMENT

The treasurer noted a service charge of 80¢ and entered this into the cheque stubs; this reduced the balance on the stubs at the end of April to \$104.39. She also entered it into the Cheque Disbursements Journal. (Since the service charge is a once-a-month item, she used the

"Sundry" column.) Then she totalled the columns.

In comparing the cheques returned with the statement to those listed in the Journal, she noted that the cheque to Manitoba Telephone for \$25.89 and the cheque to Mr. Alio for \$9.00 were outstanding. She then prepared the following Bank Reconciliation Statement:

(FIGURE 16)

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL APRIL 1972										
MICROGRAPHED IN PERMANENT NY										
DATE	NAME	CHEQUE #	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	PETTY CASH	BABYSITTING	DESCRIPTION	AMOUNT	
1972 APR 5	JOHN ARNOLD	3	2500 ✓			2500				1
7	ACE OFFICE SUPPLIES	4	2468 ✓	1525	943					2
15	ANNE JONES	5	700 ✓				700			3
25	MANITOBA TELEPHONE	6	2589					RENT, UTILITIES AND SERVICES	25 89	4
25	GEORGE ALIO	7	900				900			5
30	JOHN ARNOLD	8	1748 ✓			1748				6
30	CENTRETOWN NAT. BANK		80 ✓					SERVICE CHARGES	80	7
			10985	1525	943	4248	1600		2669	9
BANK RECONCILIATION STATEMENT APRIL 30, 1972										
OPENING BANK BALANCE, APRIL 1, 1972						\$ 15344				
(CARRIED FORWARD FROM LAST MONTH)										
ADD: RECEIPTS FROM RECEIPTS JOURNAL						6080				
						\$ 21924				
LESS: DISBURSEMENTS FROM DISBURSEMENTS JOURNAL						10985				
TRUE BANK BALANCE, APRIL 30, 1972						\$ 10439				
CLOSING BALANCE ON BANK STATEMENT,										
APRIL 30, 1972						\$ 13928				
LESS: OUTSTANDING CHEQUES: #6, MANITOBA TELEPHONE						2589				
#7, GEORGE ALIO						900				
						\$ 10439				
							(EQUALS TRUE BANK BALANCE, APRIL 30, 1972)			

During May the two outstanding cheques were cashed and cleared by the bank. They were therefore listed on the May bank statement and returned with that statement. When the treasurer saw these cheques, she went back to the April Cheque Disbursements Journal and ticked off the two entries, indicating that they were no longer outstanding. When outstanding cheques are returned in succeeding months they should never be re-entered into the journals; the treasurer should simply go back to the journal page for the month in which they were issued and put a tick mark next to the entry.

SUMMARY SHEETS

The three journals give a detailed and complete description of each transaction of the group. It is one of the treasurer's responsibilities to condense all of this information into a financial statement that gives only the most important facts - usually a listing of where the money came from and for what it has been spent, along with how much is left.

The first step in the reporting process is the preparation of Summary Sheets. Summary sheets bring together the monthly totals for the various categories of receipts and disbursements over some given period of time. The period being summarized (we'll refer to it as the reporting period) is usually from the start of the year to the month just completed.

Separate summary sheets should be prepared for each of the Receipts, Cheque Disbursements, and Petty Cash Journals. To simplify the discussion, let's only consider the Cheque Disbursements Summary.

A regular 8-column journal page is used to prepare the summary sheet. With the exception of the date, name and cheque number columns, the headings for all the other columns should be exactly the same as those which have been used for the monthly Cheque Disbursements Journal pages. The totals for each column for every month in the reporting period are then transferred from that month's journal page to one line on the summary sheet. Then the columns on the summary sheet are totalled.

One additional step is needed if the journal uses a "Sundry" column. Since this column combines categories of expenses, it must be further summarized by accumulating the totals for each separate category of expense over the reporting period.

The result is the total disbursements by category of expense for the reporting period. The exact same process holds for the other two journals.

Figure 17 shows the Cheque Disbursements Summary prepared by the treasurer of the Citywide Action Group for the period of March 1 to April 30: (see also Figure 8 on page 23 and Figure 16 on page 42 which show where all the amounts came from).

(FIGURE 17)

CHEQUE DISBURSEMENTS SUMMARY										
FOR THE PERIOD MARCH 1, 1972, TO APRIL 30, 1972										
LITHOGRAPHED IN PERMANENT INK										
STERLING			BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	PETTY CASH	TRANSITING		SUNDRY	
NO. 58 872 B COLUMN										
1	1972	MARCH	4656	3500	1156	0	0		0	1
2		APRIL	10985	1525	943	4248	1600		2669	2
3										3
4		TOTAL	15641	5025	2099	4248	1600		2669	4
5										5
6										6
7										7
8										8
9										9
10										10
11										11
12										12
13										13
14										14
15										15
16										16

Note that she not only gave a breakdown for the "Sundry" column, but also added up the amounts to show that they came to the same as the total of the "Sundry" column above.

The handling of the "Sundry" column sometimes causes confusion, so we give a further example. Suppose that at the end of June the treasurer prepared the summary sheet and the total of the "Sundry" column was \$50.99. Going back to the monthly Disbursements Journal pages she found the following entries under "Sundry":

<u>April</u>	Rent, Utilities and Services	\$25.89	
	Service Charges	<u>.80</u>	\$26.69
<u>May</u>	Rent, Utilities and Services	10.50	
	Service Charges	<u>.60</u>	11.10
<u>June</u>	Rent, Utilities and Services	12.00	
	Service Charges	<u>1.20</u>	13.20
			<u>\$50.99</u>

In preparing the summary of the sundry items she added together the three amounts for "Rent, Utilities and Services" and likewise the three amounts for "Service Charges". The summary then looked like:

Rent, Utilities and Services	\$48.39
------------------------------	---------

Service Charges	2.60
-----------------	------

\$50.99

Figures 18 and 19 show the Receipts Summary and the Petty Cash Summary for the Citywide Action Group for the period from March 1 to April 30, 1972:

(FIGURE 18)

(see also Figure 5 on page 16 and Figure 13 on page 37)

RECEIPTS SUMMARY					
FOR THE PERIOD MARCH 1 TO APRIL 30, 1972					
DATE	DESCRIPTION	BANK	GRANTS	BAKE SALE	
1	1972				1
2	MARCH	20000	20000	-	2
3	APRIL	6080	3500	2580	3
4	TOTAL	<u>26080</u>	<u>23500</u>	<u>2580</u>	4
5					5
6					6
7					7
8					8
9					9
10					10
11					11

(FIGURE 19)

(see also Figure 12 on page 32; the petty cash fund wasn't set up until April so there are no March entries)

PETTY CASH SUMMARY FOR THE PERIOD MARCH 1 TO APRIL 30, 1972									
STENOGRAPHED IN PERMANENT INK									
STERLING			PETTY CASH PAID		MEALS AND TRANSPORTATION		OFFICE SUPPLIES AND EXPENSES		
1	1972	MARCH	0		0		0		1
2		APRIL	1748		850		898		2
3									3
4		TOTAL	1748		850		898		4
5									5
6									6
7									7
8									8
9									9
									10

FINANCIAL STATEMENTS

Once the summary sheets have been completed the task of preparing a financial statement becomes easy. Totals for each category of expense and receipt are given in the summaries and the job is essentially only one of writing them down in a list. There is one special point, however, to keep in mind and that involves petty cash.

As we stated earlier, petty cash is a means of making payments, not an item of expense. The cheques recorded in the Disbursements Journal and designated for petty cash are payments to reimburse the petty cash fund

(or, in the case of the first cheque, to open the fund). The treasurer is simply taking money in one form (a cheque) and changing it into another (cash); the act of writing a cheque to petty cash, cashing it, and putting the cash into the box does not reduce the amount of money which the group has. The group's money is only reduced when a payment is made from petty cash.

Therefore in preparing a statement of expenses, the "Petty Cash" column in the Disbursements Journal and the "Petty Cash Paid" column in the Petty Cash Journal should be entirely ignored. Only the actual expense items in both journals should be used in the calculation.

The statement of expenses lists both the items in the Disbursements Summary and the items in the Petty Cash Summary (since no matter whether the money was paid by cheque or cash, it is nonetheless an expense). In preparing the statement of expenses, it may happen that the same category of expense appears in both the Cheque Disbursements and Petty Cash summaries. In this case the amount shown in the statement is the sum of the two totals. For example, looking at Figures 17 and 19 (pages 45 and 47) we see that the Disbursements Summary shows \$20.99 spent on office supplies while the Petty Cash Summary shows \$8.98 for office supplies. The statement would then indicate the total of these, \$29.97, under office supplies.

The financial statement will usually be made up of three parts: First, the statement of income; second, the statement of expenses; third, the balance remaining. The usual title for this statement is Statement of Income and Expenditures. It should always be headed with the

name of the group, the statement title and the reporting period which it covers. The statement will usually have two columns of figures: one shows the income and expenditures for the month just ended (these can be taken from the month's totals in the journals); the other shows the totals for the reporting period (these are taken from the summary sheets).

Figure 20 shows the first financial statement for the Citywide Action Group for the period of March 1 to March 31, 1972.

(FIGURE 20)

Citywide Action Group	
Statement of Income and Expenditures	
for the month of March, 1972	
<u>INCOME</u>	
Grants	\$ 200.00
	<u>\$ 200.00</u>
<u>EXPENDITURES</u>	
Equipment	\$ 35.00
Office Supplies and Expenses	11.56
	<u>\$ 46.56</u>
<u>BALANCE REMAINING</u>	
Balance on March 1, 1972	NIL
Add: Total Income (March)	\$ 200.00
Less: Total Expenditures (March)	<u>46.56</u>
Balance Remaining on	\$ 153.44
March 31, 1972	<u></u>

By referring back to Figure 5 on page 16 and Figure 8 on page 23 it is easy to see where all of the amounts came from.

Figure 21 shows the next financial statement which the treasurer prepared after the end of April and which covers the period of March 1 to April 30, 1972:

(FIGURE 21)

Citywide Action Group Statement of Income and Expenditures for the month of April, 1972, with cumulative totals for the period March 1 to April 30, 1972		
	Month ended April 30	For the period March 1 to April 30
<u>INCOME</u>		
Grants	\$ 35.00	\$ 235.00
Bake Sale	25.80	25.80
	<u>\$ 60.80</u>	<u>\$ 260.80</u>
<u>EXPENDITURES</u>		
Equipment	\$ 15.25	\$ 50.25
Office Supplies and Expenses	18.41	29.97
Rent, Utilities and Services	25.89	25.89
Babysitting	16.00	16.00
Meals and Transportation	8.50	8.50
Service Charges	.80	.80
	<u>\$ 84.85</u>	<u>\$ 131.41</u>
<u>BALANCE REMAINING</u>		
Balance on April 1, 1972	\$ 153.44	
Add: Total Income (April)	60.80	
	<u>\$ 214.24</u>	
Less: Total Expenditures (April)	84.85	
Balance Remaining on April 30, 1972	<u>\$ 129.39</u>	

For the amounts in the "month ended April 30" column, see Figures 12 (page 32), 13 (page 37), and 16 (page 42). For the reporting period amounts, see Figures 17 (page 45), 18 (page 46) and 19 (page 47).

As the example shows, the "balance remaining" portion is calculated in the following way:

First, take the balance on the first day of the month (which is the same as the balance remaining on the last day of the previous month and which therefore can be taken from the previous financial statement).

Then, add the total income for the month.

Finally, subtract the total expenditures for the month.

This final amount is the balance remaining at the end of the month and will be used in the next month's statement as the opening balance.

It is also worth noting exactly what the "balance remaining" figure means. The money of the Citywide Action Group is in two places. One is the bank and the other is the petty cash box. Going back to the Bank Reconciliation Statement for April (Figure 16 on page 42), we see that the true bank balance (the amount in the bank on April 30 if all cheques were cashed) is \$104.39. From the Petty Cash Reconciliation for April (Figure 12 on page 32), the petty cash box had \$25.00 in it on April 30. The

sum of these figures is exactly \$129.39, which is what is shown as the balance remaining on April 30, 1972.

The true bank balance and the amount in the petty cash box should always equal the balance remaining. The treasurer may want to prepare a separate statement to show they do agree.

SPECIAL PURPOSE FUNDS

Sometimes a group will receive money which is designated for a special purpose. Since the person or organization giving the money expects that the group will use it only for this purpose, the treasurer will have to keep track of how much specially designated money has been received and how much has been spent. Usually this can be done very easily within the bookkeeping system which has already been set up.

When the money is received it is put into the chequing account, just like any other income. However in the Receipts Journal the treasurer should open a new category of receipt for these specially designated funds. Likewise in the Cheque Disbursements Journal he should open a new category of expense (or more than one category if needed) to record the special expenses. Then he can always figure out how much money has been received for any special purpose by totalling the appropriate category of receipt column; and he can figure out how much has been spent by totalling the appropriate category of expense.

For example, suppose that in May the Citywide Action Group received a \$300 grant from the Second Church of Centretown to print a Tenants' Rights Handbook. It was stipulated that the grant could only be used for this purpose. When the grant had been deposited into the chequing account, the treasurer opened a new column in the Receipts Journal headed "Grants - Tenants' Handbook". Since the only expense was to be printing cost, she recorded these in the Disbursements Journal under the new category of "Tenants' Handbook" (for which she used the "Sundry" columns). Figure 22 shows the Receipts Journal entry recording receipt of the grant, and the Disbursements Journal entry recording the first printing expense:

(FIGURE 22)

CITYWIDE ACTION GROUP
RECEIPTS JOURNAL
MAY 1972

LITHOGRAPHED IN PERMANENT INK

DATE	NAME	BANK	GRANTS	BAKE SALE	GRANTS - TINY'S HANDBOOK
1 MAY 1972	SECOND CHURCH OF CENTERTOWN	300.00			300.00

[illegible]

If the special purpose funds are spent on several different categories of expense, the treasurer may find it to be quite a bit of work to sort these all out of the "Sundry" column. This is particularly the case if the category headings are the same, or similar to those used to record general expenses. (For example, a special project might involve office expenses that would have to be kept distinct from a group's general "Office Supplies and Expenses".)

An easier method would be to take two columns in the Disbursements Journal and designate them exclusively for the recording of expenses paid from the special purpose funds. These columns would be used in the same way as the "Sundry" columns. That is, the first would be headed "Description" and record the category of expense for each disbursement; the second would be headed "Amount" and naturally record the amount. Then even if the headings for the categories of expense were the same as those used for general funds, there would be no confusion. Further, if the treasurer wants to know how much of the special purpose fund has been used, he only has to total the "Amount" column.

For example, suppose that in August the Citywide Action Group got a grant for an organizing drive in a local public housing project. The grant could only be used for this purpose. It paid for the telephone in a member's basement being used for a project office, babysitting for volunteer organizers, some office supplies needed in the organizing drive, and some other kinds of expenses. Figure 23 shows the two new columns which the treasurer opened to record the expenses of the organizing drive; it also shows the first entry in the new columns which records the

installation costs of the phone in the project office:

(FIGURE 23)

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL AUGUST 1972											
PHOTOGRAINED IN PERMANENT INK											
DATE	NAME	CHEQUE #	BANK	OFFICE SUPPLIES AND EXPENSES	PEITY CASH	BAKESITANG	ORGANIZING DRIVE DESCRIPTION	AMOUNT	SUNDAY DESCRIPTION	AMOUNT	
1	1972										1
2											2
7	AUG 7	MANITOBA TELEPHONE	53	3215			RENT, UTILITIES AND SERVICES	32 15			6
8											7
9											8
10											9
											10

As a general rule it is best to keep all of a group's money in one chequing account and to use the journals to keep track of special purpose funds. Separate chequing accounts (and therefore separate journals) should be used only for large grants that require many different categories of expenses (for example, a LIP grant).

THE TREASURER'S FILES

The treasurer should have a separate file where he can keep all of the documentation relating to the group's financial affairs. This would include bills that have been paid, receipts, financial statements, and,

of course, the journals.

The file might be a portable accordion file that can be bought at a stationery store, or it might be a drawer in the group's filing cabinet. But it should definitely be separate from the group's general files or else it will be very easy for things to get lost or misplaced. In addition to the separate file, it is a good idea for the treasurer to buy a binder in which to keep the journal pages.

All bills should be filed for future reference. They can be filed according to the individual suppliers' names; or a separate file could be opened for each month, and all the bills paid that month placed in that file. The treasurer can decide which is the best method for the group.

All financial records (journals, cancelled cheques, bank statements, financial statements, bills, etc.) should be kept in the files from one year to the next. Never destroy financial records. According to the law, an organization must keep its records for at least six years, and even then can only destroy them with government permission.

CHANGING OVER TO THIS SYSTEM

A group may be using a different bookkeeping system and the treasurer may want to change over to the

system described in this report. Generally this will be an easy process, although it will depend on the kind of bookkeeping system which the group already has.

The easiest time to change bookkeeping systems is at the end of an accounting period. Usually this means at the end of the year. If the system is changed at this time it won't be necessary to prepare financial reports on the basis of two different systems.

The most important step is to calculate the true bank balance on the first day of the first month in the new accounting period. This should be entered into the cheque stubs and will be the start of the running balance in the stubs. This opening true bank balance can be computed by taking the bank statement for the month preceding the new accounting period and subtracting the amounts of all outstanding cheques (and adding the outstanding deposits, if any).

Keeping these two things in mind, the change-over should offer no problems. Of course there may be special circumstances for some groups and it would be very hard to cover all of these here. If the treasurer has any questions on how to change over to this system, he should seek the advice of someone experienced in bookkeeping (an accountant, the bookkeeper of a local social agency, etc.)

BOOKKEEPING FOR THE MORE ADVANCED GROUP

SUMMARY OF THE BASIC BOOKKEEPING SYSTEM

Before discussing some of the bookkeeping problems that may be encountered by the more advanced group, it may be useful to summarize the system which has already been described. It should be stressed that this basic system can form the foundation of a bookkeeping system for almost any group, no matter how sophisticated its needs.

I. The Chequing Account

- A. Every group should have a chequing account (which will usually be a current account).
- B. All income, without exception, should be deposited into the chequing account.
- C. Payments should generally be made by cheque, with the exception of small payments and some reimbursements to members which may be paid more conveniently through petty cash.
- D. Cheque stubs should be filled out completely each time a cheque is written and a running balance should be kept on the stubs.

II. The Journals

All financial transactions should be recorded in one of the journals. There are three basic journals:

- A. The Receipts Journal in which all income is recorded.
- B. The Cheque Disbursements Journal in which all payments by cheque are recorded.
- C. The Petty Cash Journal in which all payments made by cash are recorded.

III. Cheque Disbursements Journal

- A. There should be a separate page for each month.
- B. The first four columns ("a" through "d" in Figure 4 on page 13) should always record (in this order) the date, name of payee, cheque number, and amount of cheque. The amount-of-cheque column is always headed by the word "Bank". The rest of the columns on the page are flexible and will record whatever categories of expenses are used most by the group. The two right-most columns are always the "Sundry" columns and are used to record expenses for which no separate column has been opened.
- C. At the end of each month the columns should be totalled only after the month's bank statement has been received and the service charges entered into the journal. The charges should also be deducted from the running balance on the cheque stubs.

- D. When the columns are totalled, the sum of all the columns to the right of the bank must equal the total of the bank column.
- E. After the bank statement is received, the treasurer should compare the cancelled cheques with the bank statement; he should also verify the accuracy of all entries on the statement by comparing the returned cheques with the entries in the Disbursements Journal. Then he should determine which cheques are outstanding. Finally a Bank Reconciliation Statement should be prepared and entered on the journal page.
- F. When the Bank Reconciliation Statement is completed, the treasurer should paper clip the cancelled cheques to the statement and file them for future reference.

IV. Receipts Journal

- A. There should be a separate page for each month.
- B. The first four columns are the same as those in the Cheque Disbursements Journal (except for the "Cheque number" column which is left blank). The other columns will depend on the types of income of the group. The two right-most columns are for "Sundry".
- C. The columns should be totalled at the end of

each month.

V. The Petty Cash Journal

- A. The same rules apply regarding separate monthly sheets and totals as above.
- B. Use of the first four columns is the same as for the Cheque Disbursements Journal except that "Cheque number" becomes "Voucher number" and "Bank" becomes "Petty Cash Paid". Again, the rest of the columns are up to the group and the two right-most columns are for "Sundry".
- C. The petty cash account should be reconciled monthly and the reconciliation statement entered onto the month's journal page.

VI. The Petty Cash Fund

- A. One member of the group should be the custodian of the fund.
- B. Every payment out of the petty cash fund must be accompanied by a completed petty cash voucher. Vouchers which have been paid should be kept in the petty cash box.
- C. The fund is reimbursed by totalling the amounts on the vouchers in the box and issuing a cheque

in this amount to the custodian of the fund. The vouchers should then be removed from the box and filed by the treasurer.

- D. The fund should never be used for loans or for cashing members' cheques.

VII. Summary Sheets

- A. Separate summary sheets should be prepared for each of the three journals. The reporting period being summarized is usually from the start of the year to the month just completed.
- B. The headings for the columns of each summary sheet are taken directly from the headings used in the respective journals.
- C. Totals of each journal column for each month in the reporting period are transferred to the summary sheets and then the columns of the summary sheet are totalled.
- D. The "Sundry" column has to be separately summarized to break it down into categories of expenses (or receipts).

VIII. The Financial Statement

- A. The Financial Statement has three parts;
1) statement of income; 2) statement of expenses; 3) balance remaining.
- B. The column totals in the month's journal pages and in the summary sheets give all the information needed for a financial statement, which is really only a re-listing of these totals.
- C. The "Petty Cash" column of the Disbursements Journal and the "Petty Cash Paid" column of the Petty Cash Journal should be entirely ignored in preparing the statement.
- D. If the same category of expense occurs in the Disbursements and Petty Cash journals, the amount in the statement for this category is the sum of the two totals.
- E. The balance remaining should always be the sum of the true bank balance and the petty cash on hand at the end of the month.

This system of financial records has thus far been discussed in terms of a group having small expenses and no staff. Its income has been from donations and from the proceeds of a bake sale and its modest expenses equally simple. If such a group is to expand its program, it is a major jump from here to the staff-and-storefront level of

an action-oriented service organization. This sort of program involves substantial operating costs and all of these must be carefully anticipated in the preparation of its budget. But the bookkeeping system itself can easily be expanded to meet this expanded program. The only significant new element will be that of a payroll.

PREPARING A BUDGET

The submission of an application for funds - whether to the government, a church, a community fund, or a foundation - usually must be accompanied by a detailed budget setting forth how the grant is to be used. The budget is important because it gives an indication to the funding source of the group's ability to plan and manage its affairs. Therefore it should be put together with some care.

Some funding sources specify what categories of expenses, and what degree of detail, they require in a budget proposal. If a proposal is being prepared for a specific funding source, the first thing to do is ask the grants officer or other official what guidelines the funding source has. It is also worth determining what the usual size of grants from the source has been to other similar groups (since this will give an indication of the maximum size of grant that might reasonably be expected).

If the funding source has no guidelines (or if the budget is being prepared for a more general purpose) the group is on its own. In any case the first step is to

carefully examine what the group is doing, and what it is proposing to do, and then determine what types of expenses are to be incurred in such activity.

For example, suppose that in late 1972 the Citywide Action Group began planning for a Housing Advocacy Centre to which tenants could call if they were having problems with their landlords. The Centre would be manned by a full-time staff of four workers so salaries would be a budget item. Obviously telephones would be needed. An office in a storefront would be useful so rent would have to be budgetted for. An empty office would be difficult to work in so furniture would be necessary. The group was planning a Housing Advocacy Newsletter so the rental of a mimeograph machine would be useful. And the group needed a new typewriter (rented). And so on. The left-hand column of Figure 24 on page 68 shows the complete list of expenses which the Citywide Action Group developed for their Housing Advocacy Centre.

Once the list of items is determined, the group will have to estimate costs. The amounts should be estimated according to the goals and objectives of the project and the plan the group has developed to meet these goals. There is only one basic rule to keep in mind: Be realistic. On the one hand that means not creating padded budgets; budgets that have grossly inflated figures do not go over well with funding sources. On the other hand, it means that the budget should not be so tight that one unexpected expense could ruin the whole thing; a reasonable leeway for the unexpected is a good idea.

Take the item of rent for a storefront, for

example. A member of the group should probably go around to a few vacant storefronts in the area in which the group wants to open theirs and determine what kinds of rents are being charged. He should note carefully whether utilities (electricity, water, heat) are included in the rent. If these are not included, he might ask occupants of adjacent stores or previous tenants how much they pay for these. These enquiries would probably give a good idea of how to estimate occupancy costs (rent and utilities).

For an item like "telephone", the group should determine the monthly service charges for a business line (which are higher than for a private line) and how many lines they will need. They should ask the phone company about installation charges. They should try to figure out if they will be making many long distance phone calls and budget for these.

There are some budget items which are often forgotten so it may be worth mentioning a few:

- 1) Employer's expense for the Canada Pension Plan (CPP) or Quebec Pension Plan; Unemployment Insurance (UI); and health insurance, in provinces where this is applicable. These are discussed further in the section on payrolls.
- 2) Workmen's Compensation premiums. These vary from province to province and can be determined by calling your provincial Workmen's Compensation Board.

- 3) Holiday pay. Provision for holiday pay varies from province to province, but all provinces have laws regulating this. Generally, holiday pay can be provided in extra pay where no holiday is actually taken or in time off with regular pay. Your provincial Department of Labor should be contacted regarding the laws in your province.
- 4) Telephone installation costs. Telephone companies may also require a deposit for the installation of the phone for an organization.
- 5) Utilities. (if not included in rent) Utility companies may also require a deposit.
- 6) Bookkeeping, accounting and legal services. A group should consider budgetting for the services of an accountant and a lawyer, if needed.
- 7) Insurance. The group might consider insurance to cover losses from fire, theft, vandalism, etc.
- 8) Bank charges.

The group should keep on file all of the relevant information on how the budget amounts were determined. This

is for two reasons: First, in case the funding sources ask for justification of an amount; second, to assist the group when it actually receives the funds and starts spending the money.

In presenting the budget, expenses should be grouped into the same categories that are used in the journals and in the financial statements. This will make it easier to draw comparisons between the anticipated expenditures described in the budget and actual expenditures.

Figure 24 shows the budget which was prepared by the Citywide Action Group for their Housing Advocacy Centre:

(FIGURE 24)

Citywide Action Group Budget for Housing Advocacy Centre for the period January 1 to December 31, 1973		
<u>Wages and Salaries</u>		
Project Coordinator (\$125 per week)	\$ 6,500.	
3 staff workers (\$100 per week each)	15,600.	\$ 22,100.
<u>Employer's CPP expense</u>		338.
<u>Employer's UIC expense</u>		310.
<u>Holiday Pay</u> (In Manitoba, 4% of gross wages)		884.
<u>Rent, Utilities and Services</u>		
Rent for storefront office (\$150 per month, including heat and water)	\$ 1,800.	
Electricity (\$15 per month; no deposit required)	180.	
Telephone (Two lines at \$20 per month each; long distance at \$10 per month; installation charge of \$35)	635.	
Insurance for office	200.	2,815.
<u>Office Supplies and Expenses</u>		
General office supplies - paper, pens, envelopes, etc. (Initial purchase of \$300; then \$25 per month)	\$ 600.	
Mimeograph rental (\$30 per month)	360.	
Typewriter rental (\$20 per month)	240.	
Adding machine rental (\$17 per month)	204.	1,404

Equipment and Furniture

Furniture for office (3 desks at \$50 each;
10 chairs at \$10 each; 3 long tables at
\$15 each; 2 filing cabinets at \$40 each;
one typing stand at \$15 - all furniture
bought used). 390.

Meals and Transportation

(For volunteers only) (\$30 per month) 360.

Babysitting

(For volunteers only) (\$60 per month) 720.

Purchased Services

Lawyer's and Accountant's fees 750.

Bank Charges

(\$5 per month) 60.

\$ 30,131.

NOTE: In Manitoba, no Workmen's Compensation is required for
a non-profit organization engaged solely in office work.

PAYROLL

(Note: Groups in the province of Quebec should disregard
this section and instead read the section in the supplement
on page 88.)

As soon as an organization begins to hire
employees, the treasurer should open a fourth journal,
called the Payroll Journal. This is used to record
total wages (gross wages) paid to each employee, the
deductions which are made from gross wages, and the
resultant take-home pay (net wages).

By law every employer must make certain deductions from the wages of his (or its) employees. These are called statutory deductions and include income tax, Canada Pension Plan, unemployment insurance, and (in some provinces) health insurance. It is the legal obligation of every employer to deduct appropriate amounts for each of these from the gross wages of its employees and then to pay (or remit) monthly the amounts so deducted to the government.

For the moment we will put aside the question of how to determine the amounts of each of these statutory deductions and concentrate on how the Payroll Journal should be used.

The Payroll Journal is kept on the same kind of sheets as the other journals. The first three columns record the date of payment, the name of the employee, and the cheque number. The next column records the gross wages. Then there are columns for each of the statutory deductions, followed directly by a column for total deductions (which is simply the sum of the amounts in the deductions columns). Finally there is a column for net wages which will be headed by the words "Payroll Clearing (net wages)".

The group should establish a schedule of paydays, and as a general rule these should be the only days on which wages should be paid. The most common system is to specify each Friday as a payday (except when Friday is a holiday and then the preceding Thursday is used).

Since all employees are paid on paydays, entries

in the Payroll Journal will be made in groups on the same day. Before the first entry in each of these payday groups the treasurer should write in the period for which wages are being paid. After all of the wages and deductions have been recorded for the pay period, the columns should be totalled. The reason for totalling the columns each payday instead of waiting until the end of the month (as with the other journals) is just to guarantee that no mistake is made in calculating the net wages of an employee.

As an example, suppose the Citywide Action Group received its grant for the Housing Advocacy Centre and began to employ four persons on January 1, 1973. The first pay period was the week of January 5. In Manitoba health insurance is financed entirely from general government revenues, so no deduction was necessary for this. The entry in the Payroll Journal was as follows:

(FIGURE 25)

CITYWIDE ACTION GROUP PAYROLL JOURNAL JANUARY 1973									
DATE	NAME	CHEQUE #	GROSS WAGES	INCOME TAX LIABILITY	CANADA PENSION PLAN LIABILITY	UNEMPLOYMENT INSURANCE LIABILITY	TOTAL DEDUCTIONS	PAYROLL CLEANSING (NET PAY)	
FOR THE PERIOD JANUARY 1 - 5, 1973									
1973 JAN 5	GEORGE ALIO	98	100.00	13.40	1.59	1.00	15.99	84.01	
5	HELENE LEBEVRE	99	75.00	MIL	1.14	.75	1.89	73.11	
5	THOMAS BROWN	100	100.00	7.70	1.59	1.00	10.29	89.71	
5	IDA WALKER	101	125.00	18.45	2.04	1.25	21.74	103.26	
			<u>400.00</u>	<u>39.55</u>	<u>6.36</u>	<u>4.00</u>	<u>49.91</u>	<u>350.09</u>	

Note that the total expense for wages incurred by the group is shown under the "Gross Wages" column. This is how much the group is really spending for wages. However, it is obviously not the amount which the employees are taking home, because of the deductions; and it is the amount of this take-home, or net, pay (as recorded in the "Payroll Clearing" column) for which cheques are written on payday. The difference between gross and net wages (which is the sum of the deductions) will have to be paid by the group at the end of the month to the government; so although this money is not paid out at the same time as net pay, it is nonetheless a debt which the group will have to honor. For this reason each of the deduction columns is given a heading that ends with the word "liability" (which means debt).

As well as being recorded in the Payroll Journal, the cheques will also have to be entered into the Cheque Disbursements Journal. The amount of each cheque is entered under the "Bank" column and under a new category of disbursement to be called "Payroll Clearing". The "Sundry" column could be used to record payroll clearing, but if the treasurer has to record a considerable number of pay cheques each month it would probably be easier to open a separate column.

The Cheque Disbursements Journal entry for the Citywide Action Group example described above looked like:

(FIGURE 26)

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL JANUARY 1973											
PAGE	DATE	NAME	CHEQUE #	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	BABYSITTING	PETTY CASH	PAYROLL CLEARING	SUNDAY	
										DESCRIPTION	AMOUNT
1	1973 JAN 5	GEORGE AUG	98	8401					8401		1
2	5	HELENE LEBEURE	99	7311					7311		2
3	5	THOMAS BROWN	100	8971					8971		3
4	5	IDA WALKER	101	10326					10326		4
5											5
6											6
7											7
8											8
9											9

On the last payday of the month the treasurer has to bring together the summaries for each payday in the month into a total monthly payroll summary. This should be done in the Payroll Journal under the last entry in the month, or, if there isn't room, on a separate page which is kept in the Payroll Journal section.

The monthly payroll summary is done just like the summary sheets described before, except that the reporting period is the month just completed. Totals of gross wages, deductions, and payroll clearing for each pay period are transferred to one line of the monthly summary, and the columns of the summary are then totalled. The resulting amounts show total gross and net wages paid during the month, plus the amount of liability the group has incurred for income tax, Canada Pension Plan (CPP), Unemployment Insurance (UI), and (if applicable) health insurance.

The Citywide Action Group issued a payroll on each Friday in January. At the end of the month the treasurer prepared the following payroll summary:

(FIGURE 27)

CITYWIDE ACTION GROUP PAYROLL JOURNAL JANUARY 1973									
PHOTOGRAINED IN PERMANENT INK									
DATE	NAME	CHEQUE #	GROSS WAGES	INCOME TAX LIABILITY	CANADA PENSION PLAN LIABILITY	UNEMPLOYMENT INSURANCE LIABILITY	TOTAL DEDUCTIONS	PAYROLL CLEARING (NET PAY)	
1 1973									1
2									2
3									3
4									
14									14
15									15
16	JANUARY 1973 SUMMARY								16
17									17
18	JAN 5	PERIOD JAN. 1-5	400.00	39.55	6.36	4.00	49.91	350.09	18
19	12	PERIOD JAN. 6-12	415.00	42.15	6.60	4.15	52.90	362.10	19
20	19	PERIOD JAN. 13-19	415.00	42.15	6.60	4.15	52.90	362.10	20
21	26	PERIOD JAN 20-26	390.00	38.95	6.20	3.90	49.05	340.95	21
22									22
23			1620.00	162.80	25.76	16.20	204.76	1415.24	23
24									24
25									25

As can be seen from this summary, the Citywide Action Group owed the government \$204.76 for deductions made from its employees' wages. The group, however, had to pay even more to the government.

According to the law, in addition to simply remitting CPP deductions from his employees, an employer must pay the government an extra amount equal to the total deductions from his employees for CPP. This is called the

employer's CPP expense. In our example, the Citywide Action Group had deducted \$25.76 from its employees for CPP. Therefore the group had to match this, paying the government an additional \$25.76 beyond the total deductions of \$204.76. And this is still not all.

The law also requires an employer, in addition to remitting UI deductions from his employees, to pay an extra amount equal to 1.4 times the total deductions from his employees for UI. This is called the employer's UI expense. The Citywide Action Group had deducted \$16.20 for UI, so its UI expense was $1.4 \times \$16.20$ or \$22.68. This brought the total due the government to \$253.20, broken down as follows:

Income tax liability	(deduction)	\$ 162.80
CPP liability	(deduction)	25.76
Employer's CPP expense		25.76
UI liability	(deduction)	16.20
Employer's UI expense		22.68
		<hr/>
		\$ 253.20
		<hr/>

The total amount due for the income tax liability, CPP liability, UI liability, employer's CPP expense, and employer's UI expense is paid by one cheque made out to the Receiver-General for Canada. The total payment for each month must be made before the fifteenth of the following month (so in our example the Citywide Action Group had until February 15 to pay the January amount due). It is a good practice to make this payment on the last business day of the month (so the employer's CPP and UI expense can be entered into the month's financial

statement).

A group making payment for the first time must send the cheque along with a letter giving some necessary information to the federal Department of National Revenue (Taxation) in Ottawa. Call your local District Taxation Office to obtain the address and a list of the required information, or ask the Office to send you the booklet Income Tax Deductions at Source, which you will need anyway, and which has detailed instructions on making payments.

Where health insurance payments are also to be made, these are always payable to the provincial government. These must not be included in the payment to the Receiver-General for Canada.

The Cheque Disbursements Journal entry to record the payment of all of these liabilities and expenses is slightly complicated. The "Bank" column will contain the entire payment to the Receiver-General while the "Sundry" column will be used to give a breakdown into the separate amounts for each of the three liability and two expense categories. The entry for the Citywide Action Group payment for January was:

(FIGURE 28)

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL JANUARY 1973											
PHOTOGRAPHED IN PERMANENT INK											
RECORDING	DATE	NAME	CHEQUE #	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	BABYSITING	PEW CASH	PAYROLL CLEARING	SUNDAY DESCRIPTION	AMOUNT
1	1973										
2											
3											
20											
21	JAN 31	RECEIVER-GENERAL	122	25320						INCOME TAX LIABILITY	16280
22										C.P.P. LIABILITY	2576
23										EMPLOYER'S C.P.P. EXPENSE	2576
24										U.T. LIABILITY	1620
25										EMPLOYER'S U.T. EXPENSE	2268
26											
27											
28											

In the financial statement, the treasurer must show all of the new expenses involved in having employees. These include gross wages, employer's CPP expense, employer's UI expense, and employer's health insurance expense (if applicable).

This means that the only column in the Payroll Journal and Payroll Summary which should be used in preparing the financial statement is the "Gross Wages" column. All of the other columns ("Payroll Clearing" and the income tax, CPP, UI and health insurance liabilities) should be ignored, since the total of all these is the "gross wages" amount. Likewise, the only entries in the

Cheque Disbursements Journal and Summary that are used in the financial statement are the employer's CPP expense, employer's UI expense, and employer's health insurance expense. The "Payroll Clearing" and the liability entries should be disregarded.

Now we can come back to the question of how much to deduct for each of the statutory deductions. Since they are all different, we will look at each separately:

Income Tax

As soon as an employee is hired he must complete a TD-1 form (Employee's Tax Deduction Return). This form records the employee's name, address, social insurance number, birth date, and total claim for exemptions (the amount of income he can earn and still be exempt from income tax). The deduction for income tax depends entirely on the employee's wages and the amount of personal exemption he claims on his TD-1. For this reason it is very important that the completed TD-1 forms are kept on file by the treasurer. Blank TD-1 forms can be obtained from any District Taxation Office of the federal Department of National Revenue (Taxation). TD-1 forms are important documents and must be filled in correctly. Ask your Taxation office should you have any questions.

National Revenue publishes a booklet which lists income tax deductions according to wages and personal exemption: Income Tax Deductions at Source. This was referred to earlier, and there are separate editions for each province. It is available without charge from any District Taxation

Office and the treasurer should make sure he has a copy on hand before anyone is hired. It should be noted that for purposes of calculating income tax deductions, "wages" means gross wages less deductions for CPP and UI.

At the end of each year an employer must issue T4 slips to everyone who has worked for him during the year. T4 slips are statements of total earnings and deductions. They must be completed by the last day of February of the following year. Employers must also complete a T4 Summary form which goes to the Department of National Revenue. T4 slips and T4 Summary forms are sent automatically by National Revenue to all employers along with instructions on how to complete them.

Canada Pension Plan

Deductions for Canada Pension Plan are calculated as a percentage of income. The employee must pay 1.8% of gross annual wages in excess of \$600 up to a maximum contribution of \$90. (Note: this maximum applies only in 1973 and is usually increased annually.) Unless an employee makes less than \$11.54 a week, CPP deductions must be made from his wages.

This sounds confusing, but fortunately no calculations are needed to figure out CPP deductions. National Revenue publishes another booklet called Canada Pension Plan and Unemployment Insurance Tables which gives the required deduction for each level of gross wages. The treasurer should be sure to get a copy of this booklet as well.

Unemployment Insurance

Unemployment insurance deductions are also calculated as a percentage of income, in this case 1% on the first \$8,320. (This maximum also changes annually.) The booklet mentioned in the previous section gives amounts of these deductions for various gross wages.

When an employee leaves, the employer must give him a Separation Certificate which he can use to establish eligibility for unemployment insurance benefits. This certificate must be given within five days of the separation. Blank Separation Certificates can be obtained by calling the local Unemployment Insurance Commission office.

Health Insurance

As we have stated, these programs vary by province. Your provincial Department of Health can advise you of provincial laws regarding health insurance, whether employer deductions or contributions are required and, if so, the amounts and procedures involved.

A Note on Honorariums

Groups sometimes make payments to members which they call an honorarium. This term is generally used to mean one or another of two quite different things: Sometimes it can mean a reimbursement for expenses involved in doing volunteer work for the group (babysitting, meals and

transportation, etc.). Other times it is used to mean a more general payment in recognition of the value of the work that has been done (in which case it is somewhat like a salary).

Groups should avoid calling any payments honorariums. If the person receiving the money is on welfare, the welfare department may insist that the money is income and therefore affects the level of assistance. Also, the federal government may view the payments as wages and therefore liable to income tax, Canada Pension Plan and Unemployment Insurance.

The payment should be called, and recorded in the journals, for what it really is. If it is a reimbursement for expenses actually incurred, then the payment should be for the amount of these expenses (substantiated, where possible, by receipts) and recorded under the appropriate category of expense in the journals. This will eliminate any question that the payment was wages. If on the other hand it is meant as wages, call it that. (Many welfare departments exempt a small amount of income monthly.)

INCORPORATION

Incorporation is a legal process whereby an organization is recognized by government as a "corporate individual" having many of the same legal rights and obligations as a person. The primary advantage of incorporating a group is limited liability, which simply

means that no member of the group is responsible for the debts or other obligations of the group.

Certain funding sources require that an organization be incorporated before they will make any grants to it. Many funding sources (particularly private foundations) tend to see incorporation as a sign of a group's stability and may be more inclined to make grants to incorporated groups.

Each province has its own laws regarding incorporation; there are also federal incorporation laws. All make a distinction between profit-making and non-profit corporations. Most groups who want to be incorporated will do so under provincial law as a non-profit corporation.

If a group plans to be incorporated it should see a lawyer. Legal papers will have to be filed and fees paid. If a group can't afford to pay regular lawyers' fees, it should try to find a lawyer who will volunteer his time, or perhaps go to a legal service clinic if there are any in the community.

An incorporated group will have certain legal responsibilities, such as filing an annual statement giving the name of the directors, appointing auditors, etc. A lawyer can advise the group on these obligations and assist the group to carry them out.

CHARITABLE REGISTRATION

Donations made to charitable organizations - organizations recognized and registered as such by the federal government - are deductible from the income on which individuals and corporations must pay income tax. A group may well find that fund-raising will be easier if it can issue receipts which donors can use to obtain tax-deductions for their donations. As well, private foundations are generally restricted by law to making grants only to registered charitable organizations.

A group must be incorporated before it can be registered. Registration of charitable organizations is the sole responsibility of the federal government through its Department of National Revenue (Taxation) which must be satisfied that the purposes and activities qualify it as a "charitable organization". Information on registration can be obtained from your local office of this department.

Any group that plans on being registered should do so with the help of a lawyer. There are rigid restrictions on the types of activity which a charitable organization can engage in; some groups may find that these restrictions will be too confining and not worth the advantages of registration. A lawyer can advise the group whether it should try for registration and how to do it.

AUDIT

An audit is an examination of a group's financial records to determine their accuracy. Usually an auditor will carefully look over the journals of the group, verify that the entries correspond with the cancelled cheques and receipts, and perform several other checks to test the accuracy of the financial records.

In business, and among many organizations, it is a normal practice to have the books audited periodically (usually once a year). By law, the books of a corporation must be audited annually. Many funding sources require that the financial records of groups to which they make grants be audited and that a report on the audit be submitted to them.

The important thing about an audit is that as long as the group has kept its books accurately and honestly, it has nothing to worry about. In preparing for an audit the treasurer should make sure he has gathered together all of the financial records for the period being audited; then he will have available whatever the auditor will want to see.

During the audit the treasurer may have to answer questions about what expenditures were for; he may have to produce documentation (cancelled cheques, receipts, bills) to substantiate expenditures. If the treasurer has kept his books according to a standard bookkeeping system (such as the one described in this handbook) and if he isn't trying to hide an improper use of funds, the audit should be a straightforward process. In general, the group should benefit

from the audit since it will then have an independent statement as to the accuracy of its financial records.

CONCLUSION

This handbook has tried to describe a bookkeeping system which will be of use to most low-income citizen groups. Naturally it could not cover the bookkeeping needs of every group and a great many questions have had to go unanswered. No short handbook of this kind could conceivably cover all the questions.

Most low-income organizations operate on very limited funds. Their total income is derived from small donations obtained from churches, unions, civic organizations and individuals; from membership dues; and from the proceeds of activities such as bake sales. The total annual budget of most groups is probably less than \$100 and certainly less than \$500. The basic bookkeeping system outlined in the first part of this report should answer the questions which they will encounter in maintaining financial records suited to their needs.

Groups whose program of activities expand substantially beyond this level will have additional needs which they will want their financial records to meet. In the second part of this report we have described the most common bookkeeping need of a more advanced group, the payroll record, as well as some other subjects of importance.

Depending on the kind of activity in which a group is engaged, the sources of its income, the nature of its expenses, and the requirements of its funding sources and its members, many additional different needs might

arise. For example, at the end of an accounting period a group might have to deal with accruals (expenses incurred during one accounting period for which bills will not be received until the next, and bills which remain unpaid at the end of a period). A co-op may need to keep accounts receivable and accounts payable journals. A group engaged in a small business activity might need a purchases journal. And many other examples could be given.

To design a bookkeeping system that is perfectly tailored to its needs, a more advanced group should have access to the services of an accountant. If a group is operating on a limited budget, it should try to find an accountant who can volunteer some time. A local social agency, business school, or Institute of Chartered Accountants are all good places to try. If a group is applying for a substantial grant, it should budget for the services of an accountant.

It is the intention of this handbook to provide a solid base on which a group can build its bookkeeping system. We realize, of course, that many groups will continue to use their own systems. As we have already said, this handbook is only a guide and in no way represents a system groups have to use. However we hope that those groups that choose to use this system will find this handbook helpful and that they will have an easier time managing their funds.

SUPPLEMENT

PAYROLL FOR GROUPS IN QUEBEC

As soon as an organization begins to hire employees, the treasurer should open a fourth journal, called the Payroll Journal. This is used to record total wages (gross wages) paid to each employee, the deductions which are made from gross wages, and the resultant take-home pay (net wages).

By law every employer must make certain deductions from the wages of his (or its) employees. These are called statutory deductions and include income tax, Quebec Pension Plan, unemployment insurance, and (in some provinces including Quebec) health insurance. It is the legal obligation of every employer to deduct appropriate amounts for each of these from the gross wages of its employees and then to pay (or remit) monthly the amounts so deducted to the government.

For the moment we will put aside the question of how to determine the amounts of each of these statutory deductions and concentrate on how the Payroll Journal should be used.

The Payroll Journal is kept on the same kind of sheets as the other journals. The first three columns record the date of payment, the name of the employee, and the cheque number. The next column records the gross wages. Then there are columns for each of the statutory deductions, followed directly by a column for total deductions (which is simply the sum of the amounts in the deduction columns). Finally there is a column for net wages which will be headed

by the words "Payroll Clearing (net wages)".

The group should establish a schedule of paydays, and as a general rule these should be the only days on which wages should be paid. The most common system is to specify each Friday as a payday (except when Friday is a holiday and then the preceding Thursday is used).

Since all employees are paid on payday, entries in the Payroll Journal will be made in groups on the same day. Before the first entry in each of these payday groups the treasurer should write in the period for which wages are being paid. After all of the wages and deductions have been recorded for the pay period, the columns should be totalled. The reason for totalling the columns each payday instead of waiting until the end of the month (as with the other journals) is just to guarantee that no mistake is made in calculating the net wages of an employee.

As an example, suppose the Citywide Action Group received its grant for the Housing Advocacy Centre and began to employ four persons on January 1, 1973. The first pay period was the week of January 1 through 5, and the wages were paid on January 5. For the purposes of this example we will assume that the group is located in the province of Quebec. The entry in the Payroll Journal was as follows:

(FIGURE 29)

CITYWIDE ACTION GROUP PAYROLL JOURNAL JANUARY 1973											
DATE	NAME	CHEQUE #	GROSS WAGES	FEDERAL INCOME TAX LIABILITY	UNEMPLOYMENT INSURANCE LIABILITY	QUEBEC INCOME TAX LIABILITY	QUEBEC PENSION PLAN LIABILITY	QUEBEC HEALTH INS. LIABILITY	TOTAL DEDUCTIONS	PAYROLL CLEARING (NET PAY)	
FOR THE PERIOD JANUARY 1-5, 1973											
JAN 5 1973	GEORGE ALIO	98	10000	573	100	665	156	75	1569	8431	
5	HELENE LEFEBVRE	99	12500	987	125	950	201	95	2358	10142	
5	THOMAS BROWN	100	10000	924	100	665	156	75	1920	8080	
5	IDA WALKER	101	7500	175	75	400	111	55	816	6684	
			40000	2659	400	2680	624	300	6663	33337	

Note that the total expense for wages incurred by the group is shown under the "Gross Wages" column. This is how much the group is really spending for wages. However it is obviously not the amount which the employees are taking home, because of the deductions; and it is the amount of this take-home, or net, pay (as recorded in the "Payroll Clearing" column) for which cheques are written on payday. The difference between gross and net wages (which is the sum of the deductions) will have to be paid by the group at the end of the month to the government; so although this money is not paid out at the same time as net pay, it is nonetheless a debt which the group will have to honor. For this reason each of the deduction columns is given a heading that ends with the word "liability" (which means debt).

As well as being recorded in the Payroll Journal, the cheques will also have to be entered into the Cheque Disbursements Journal. The amount of each cheque is entered under the "Bank" column and under a new category of disbursement to be called "Payroll Clearing". The "Sundry" column could be used to record payroll clearing, but if the treasurer has to record a considerable number of pay cheques each month it would probably be easier to open a separate column.

The Cheque Disbursements Journal entry for the Citywide Action Group example described above looked like:

(FIGURE 30)

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL JANUARY 1973											
RECORDED IN PERMANENT INK											
DATE	NAME	CHEQUE #	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	BATHEATING	PENY CASH	PAYROLL CLEARING	SUNDY		
									DESCRIPTION	AMOUNT	
1 JAN 5	GEORGE ALIO	98	8431					8431			1
2 5	HÉLÈNE LEFEBVRE	99	10142					10142			2
3 5	THOMAS BROWN	100	8080					8080			3
4 5	IDA WALKER	101	6684					6684			4
5											5
6											6
7											7
											8

On the last payday of the month the treasurer has to bring together the summaries for each payday in the month into a total monthly payroll summary. This should be done in the Payroll Journal under the last entry in the month, or if there isn't room, on a separate page which is kept in the Payroll Journal section.

The monthly payroll summary is done just like the summary sheets described before, except that the reporting period is the month just completed. Totals of gross wages, deductions, and payroll clearing for each pay period are transferred to one line of the monthly summary, and the columns of the summary are then totalled. The resulting amounts show total gross and net wages paid during the month, plus the amount of liability the group has incurred for federal income tax, Unemployment Insurance (UI), provincial income tax, Quebec Pension Plan (QPP), and Quebec Health Insurance Plan (QHIP).

The Citywide Action Group issued a payroll on each Friday in January. At the end of the Month the treasurer prepared the following payroll summary:

(FIGURE 31)

[illegible]

As can be seen from this summary, the Citywide Action Group owed the federal and provincial governments a combined total of \$276.71 for deductions made from its employees' wages. The group, however, had to pay even more to the two governments. To see how this works we will look at the payments to the federal and the provincial governments separately.

The Federal Government

The amounts deducted for federal income tax and for Unemployment Insurance are both payable to the government of Canada.

Furthermore, the law requires an employer, in addition to remitting UI deductions from his employees, to pay an extra amount equal to 1.4 times the total deductions from his employees for UI. This is called the employer's UI expense. The Citywide Action Group had deducted \$16.20 for UI, so its UI expense was $1.4 \times \$16.20$ or \$22.68. This brought the total due to the government of Canada to \$149.90, broken down as follows:

Federal income tax liability (deduction)	\$111.02
UI liability (deduction)	16.20
Employer's UI expense	22.68
	<u>\$149.90</u>

The amount due for the federal income tax liability, UI liability and employer's UI expense is paid by one cheque made out to the Receiver-General for Canada.

The total payment for each month must be made before the fifteenth of the following month (so in our example the Citywide Action Group had until February 15 to pay the January amount due). It is a good practice to make this payment on the last business day of the month (so the employer's UI expense can be entered into the month's financial statement).

A group making payment for the first time must send the cheque along with a letter giving some necessary information to the federal Department of National Revenue (Taxation) in Ottawa. Call your local District Taxation Office to obtain the address and a list of the required information, or ask the Office to send you the booklet Income Tax Deductions at Source, which you will need anyway, and which has detailed instructions on making payments.

The Cheque Disbursements Journal entry to record the payment of these liabilities and expense is slightly complicated. The "Bank" column will contain the entire payment to the Receiver-General while the "Sundry" column will be used to give a breakdown into the separate amounts for each of the two liability and one expense categories. The entry for the Citywide Action Group payment for January was:

(FIGURE 32)

CITYWIDE ACTION GROUP CHEQUE DISBURSEMENTS JOURNAL JANUARY 1973											
GRAPHED & PERMANENT NY											
NO	DATE	NAME	CHEQUE #	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	BAKESMAG	PETTY CASH	PAYROLL CLEARING	SUNDRY DESCRIPTION	AMOUNT
1	ATB										
2											
3											
4											
5											
13											
14											
15	JAN 31	RECEIVER - GENERAL FOR CANADA	122	14990						FEDERAL INCOME TAX LIABILITY	111.02
16										U.I. LIABILITY EMPLOYER'S	16.20
17										U.I. EMPLOYEE'S	22.68
18											
19											
20											
21											
22											

The Provincial Government

The amounts deducted for provincial income tax, Quebec Pension Plan, and Quebec Health Insurance Plan are all payable to the government of Quebec.

Moreover, according to the law, in addition to simply remitting QPP deductions from his employees, an employer must pay the provincial government an extra amount equal to the total deductions from his employees for QPP. This is called the employer's QPP expense. In our example, the Citywide Action Group had deducted \$25.32 from its employees for QPP. Therefore the group had to match this, paying the provincial government an additional \$25.32 beyond

the total deductions of \$149.49 due to Quebec. And this is still not all.

The law also requires an employer, in addition to remitting QHIP deductions from his employees, to pay an extra amount equal to 8/10 of 1% of total gross salaries paid to all of his employees. This is called the employer's QHIP expense. It should be stressed that to calculate this expense you have to go back to the total gross wages as recorded in the month's payroll summary. The Citywide Action Group paid gross wages of \$1620.00, so its QHIP expense was $.008 \times \$1620.00$ or \$12.96. This brought the total due to the government of Quebec to \$187.77, broken down as follows:

Provincial Income tax liability (deduction)	\$111.96
QPP liability (deduction)	25.32
Employer's QPP expense	25.32
QHIP liability (deduction)	12.21
Employer's QHIP expense	12.96
	<hr/>
	\$187.77
	<hr/>

The amount due for provincial income tax liability, QPP liability, employer's QPP expense, QHIP liability, and employer's QHIP expense is paid by one cheque made out to the Minister of Revenue of Quebec. As in the case of the payment to the federal government the total payment for each month must be made by the fifteenth of the following month. And as in the case of the federal payment, it should be made on the last business day of the month, so the employer's QPP and QHIP expenses can be entered into the month's financial statement.

A group making payment for the first time must send the cheque along with a letter giving some necessary information to the Quebec Department of Revenue. Call your local Quebec Income Tax Office to obtain the address and a list of the required information, or ask the Office to send you the booklet Guide for the Deduction at Source in respect of the Provincial Income Tax and Quebec Health Insurance Plan, which you will also need later and which has detailed instructions on making payments.

The Cheque Disbursements Journal entry to record the payment to the Quebec Minister of Revenue is shown in Figure 33.

(FIGURE 33)

CITYWIDE ACTION GROUP

CHEQUE DISBURSEMENTS JOURNAL

JANUARY 1973

REPRODUCED IN PERMANENT INK

PAGE	DATE	NAME	CHEQUE #	BANK	EQUIPMENT	OFFICE SUPPLIES AND EXPENSES	BAIT/SINKING	PETTY CASH	PAYROLL CLEARINGS	SUNDRY	
										DESCRIPTION	AMOUNT
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											
16											
17											
18	JAN 31	MINISTER OF REVENUE	123	187 77						QUEBEC MONT TAX LIABILITY	111.96
19										QPP	
20										LIABILITY	25.32
21										EMPLOYER'S	
22										QPP EXPENSE	25.32
23										QHIF	
24										LIABILITY	12.21
25										EMPLOYER'S	
										QHIF EXPENSE	12.21

In the financial statement, the treasurer must show all of the new expenses involved in having employees. These include gross wages, employer's QPP expense, employer's UI expense, and employer's QHIP expense.

This means that the only column in the Payroll Journal and Payroll Summary which should be used in preparing the financial statement is the "Gross Wages" column. All of the other columns ("Payroll Clearing" and the federal and provincial income tax, QPP, UI, and QHIP liabilities) should be ignored, since the total of all these is the "gross wages" amount. Likewise, the only entries in the Cheque Disbursements Journal and Summary that are used in the financial statement are the employer's QHIP expense. The "Payroll Clearing" and the liability entries should be disregarded.

Now we can come back to the question of how much to deduct for each of the statutory deductions. Since they are all different, we will look at each separately:

Federal Income Tax

As soon as an employee is hired he must complete a TD-1 form (Employee's Tax Deduction Return). This form records the employee's name, address, social insurance number, birth date, and total claim for exemptions (the amount of income he can earn and still be exempt from federal income tax). The deduction for federal income tax depends entirely on the employee's wages and the amount of personal exemption he claims on his TD-1. For this reason

it is very important that the completed TD-1 forms are kept on file by the treasurer. Blank TD-1 forms can be obtained from any District Taxation Office of the federal Department of National Revenue (Taxation). TD-1 forms are important documents and must be filled out correctly. Ask your Taxation office should you have any questions.

National Revenue publishes a booklet which lists federal income tax deductions according to wages and personal exemption: Income Tax Deductions at Source. This was referred to earlier, and there are separate editions for each province. It is available without charge from any District Taxation Office and the treasurer should make sure he has a copy on hand before anyone is hired. It should be noted that for purposes of calculating federal income tax deductions, "wages" means gross wages less deductions for QPP and UI.

At the end of each year an employer must issue T4 slips to everyone who has worked for him during the year. T4 slips are statements of total earnings and deductions. They must be completed by the last day of February of the following year. Employers must also complete a T4 Summary form which goes to the federal Department of National Revenue. T4 slips and T4 Summary forms are sent automatically by National Revenue to all employers along with instructions on how to complete them.

Unemployment Insurance

Unemployment insurance deductions are calculated as a percentage of income. The employee must pay 1% of gross wages on the first \$8,320. (This maximum changes annually,

so this figure only applies in 1973.) The federal Department of National Revenue (Taxation) publishes a booklet called Canada Pension Plan and Unemployment Insurance Tables which gives the required deductions for each level of gross wages. (Note that the parts of the booklet dealing with the Canada Pension Plan should be entirely disregarded.)

When an employee leaves, the employer must give him a Separation Certificate which he can use to establish eligibility for unemployment insurance benefits. This certificate must be given within five days of the separation. Blank Separation Certificates can be obtained by calling the local Unemployment Insurance Commission office.

Provincial Income Tax

The calculation of deductions for provincial income tax depends on the employee's wages and his total claim for exemptions. There is a separate Quebec form, TPD-1, which is used to record provincial income tax exemptions by employees. The employer must have a completed Form TPD-1 for each employee who claims an exemption other than the straight personal exemption of \$1,500. To be safe, it is probably best that a group have on file a TPD-1 for each employee, regardless of his claim for exemption.

It is important to note that the Quebec law regarding income tax exemptions is very different from the federal law (the most significant difference being that Quebec allows no exemptions for dependent children).

Therefore in calculating both federal and provincial income tax, care should be taken that the appropriate exemption is being used.

The Quebec Department of Revenue publishes a booklet which lists provincial income tax deductions according to wages: Guide for the Deduction at Source in respect of the Provincial Income Tax and Quebec Health Insurance Plan. This was referred to earlier. It is available without charge from any office of the provincial Department of Revenue. It should be noted that for purposes of calculating provincial income tax deductions, "wages" means gross wages less deductions for QPP and UI.

At the end of each year an employer must issue TP-4 slips to everyone who has worked for him during the year. These are provincial equivalents of the federal T4 slips and they must be issued in addition to issuing T4 slips. Likewise employers must complete a TP-4 Summary. These forms are sent automatically from the provincial Department of Revenue and must be completed by the end of February.

Quebec Pension Plan

Deductions for Quebec Pension Plan are calculated as a percentage of income. The employee must pay 1.8% of gross annual wages in excess of \$700 up to a maximum contribution of \$93.60. (Note: this maximum applies only in 1973 and is usually increased annually.) Unless an employee makes less than \$13.46 a week, QPP deductions must be made from his wages.

This sounds confusing, but fortunately no calculations are needed to figure out QPP deductions. The Department of Revenue publishes another booklet called Deduction Tables for Contributions to the Quebec Pension Plan which gives the required deduction for each level of gross wages. The treasurer should be sure to get a copy of this booklet as well as the Employer's Guide to Contributions to the Quebec Pension Plan.

Quebec Health Insurance Plan

QHIP deductions are calculated as 8/10 of 1% of wages, with a maximum annual deduction of \$125. As with income tax, "wages" means gross wages less deductions for QPP and UI.

The same booklet which gives provincial income tax deductions lists the required deductions for QHIP.

A Note on Honorariums

Groups sometimes make payments to members which they call an honorarium. This term is generally used to mean one or another of two quite different things: Sometimes it can mean a reimbursement for expenses involved in doing volunteer work for the group (babysitting, meals and transportation, etc.). Other times it is used to mean a more general payment in recognition of the value of the work that has been done (in which case it is somewhat like a salary).

Groups should avoid calling any payments honorariums. If the person receiving the money is on welfare, the welfare department may insist that the money is income and therefore affects the level of assistance. Also, the government may view the payments as wages and therefore liable to income tax, Quebec Pension Plan, Unemployment Insurance, and Quebec Health Insurance Plan.

The payment should be called, and recorded in the journals, for what it really is. If it is a reimbursement for expenses actually incurred, then the payment should be for the amount of these expenses (substantiated, where possible by receipts) and recorded under the appropriate category of expense in the journals. This will eliminate any question that the payment was wages. If on the other hand it is meant as wages, call it that. (Many welfare departments exempt a small amount of income monthly.)

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